2012 SURVEY OF THE ASSET MANAGEMENT INDUSTRY

Operations and Compensation Metrics and Best Practices

Selected Highlights

ADVENT®

INVESTMENT ADVISER ASSOCIATION

Advent Users Group

INTRODUCTION

The investment management business appears to have rebounded smartly from the damage inflicted by the financial crisis. Positive revenue growth and attractive margins make it one of the more successful and attractive parts of the financial services sector. Still, one would be hard pressed to find anybody in the industry resting on their laurels. Change is afoot, and it is difficult to shake the feeling that complacency could quickly transform a promising rebound into disappointment or failure.

Market volatility remains a key concern. With memories of 2008 still fresh in their minds, many advisors have been caught off guard by the capricious markets of the past few years. Investors are nervous about exposing their capital to downside risk, particularly at a time when a growing number of baby boomers are entering retirement. Capital preservation is paramount, but even traditionally low-risk asset classes are viewed with suspicion. Tail risk is also a concern. Will the European Union survive? Will China suffer a hard landing? Will the U.S. find itself in another war? What about the impending fiscal cliff? Globalization means that nobody is fully insulated, and portfolios need to be constructed with the utmost care if they are going to deliver the desired results.

These concerns have encouraged widespread adjustments to asset allocation models. Investment strategies that were considered alternative not so long ago are increasingly seen as mainstream and used to provide portfolio diversification unavailable from traditional asset classes. Traditional sources of income are producing negligible yields, forcing investors to be more adventurous. Strategies like managed futures, once the sole domain of specialists, are finding their way into retail portfolios.

Investment firms that can accommodate shifting product preferences are positioned to benefit from increased asset flows. But asset growth and client retention are only tied in part to investment performance. Communication and transparency are also vital. All other things being equal, a firm that inspires confidence and loyalty in its clients will always do better than one that takes a less proactive approach. Delivering an optimal client experience in this challenging environment means a sharp and sustained focus on talent and operational excellence.

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 2011, 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 2012 survey, in which 110 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 (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

SELECTED FINDINGS

PRODUCT AND CLIENT TYPES

Firms managing just long-only products comprise 61% of firms in the survey, and now represent a minority of the largest firms.

The pace of new product development remains relatively sluggish, with only 16% of firms reporting any plans to introduce new products in the coming year. Still, the choices being made by those launching new strategies are telling, with international equities and non-traditional strategies dominating.

FINANCIALS

Despite a volatile market environment and uncertain global economic outlook, the vast majority of firms in the survey reported significantly improved financial performance in 2011.

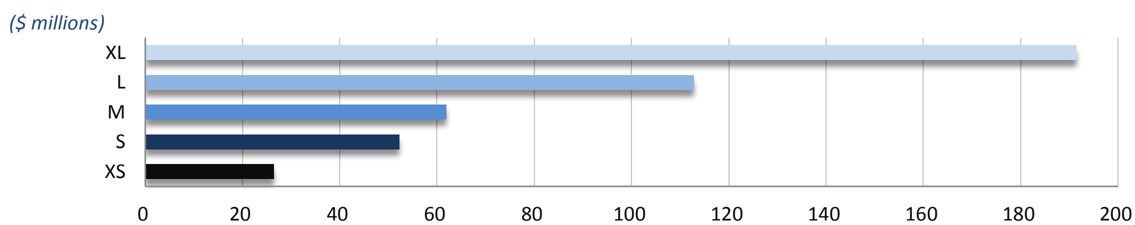
Despite higher fee realizations, profit margins slipped slightly in 2011 as firms invested in personnel, technology, and marketing. Larger firms in particular were more likely to see their profitability decline from 2010 to 2011, as they reversed earlier cost cutting measures with critical investments in growth.

PERSONNEL

When overall AUM per employee is compared across peer groups, economies of scale can be seen in high relief. The largest firms report a median $191 million of AUM per employee, compared to $26 million per employee at the smallest firms surveyed (Figure 1). Increased hiring at larger firms is having an impact on productivity. Despite nearly universal asset growth, AUM per employee shrank at both large and extra-large firms from the prior year.

Scale efficiencies often make their way to the bottom line, with the largest firms in the survey reporting an average EBITDA per employee more than three times that of the smallest firms.

Figure 1. Median AUM per employee



IT AND OPERATIONS BUDGET

Spending on investment operations continues to climb, albeit at a slightly slower pace. As they have been in previous years, small and mid-sized firms are the main drivers of this growth, as the transition from small advisory boutique to a larger enterprise inevitably means shouldering significant systems costs (Figure 2).

Figure 2. Current and projected IT and operations expenses

Average $000s	ALL	XL	L	M	S	XS
2011	849.7	2,539.1	1,399.7	629.0	162.6	128.6
2012 (est.)	911.2	2,586.7	1,520.5	713.8	190.5	142.3
% change	14.4	(0.2)	13.2	18.6	52.6	3.7

Reasons for higher IT costs vary from firm to firm but some longer term trends are clearly at play. Disaster recovery and business continuity efforts are expected to cost more at a growing number of firms. Regulatory and compliance management is another increasingly prominent driver of higher costs, as is data warehousing.

IT budget priorities are shifting. Regulatory and compliance management, for example, is expected by 28% of firms to be a top priority in 2013, compared to only 16% the prior year. Similarly, remote access, which has largely remained a back burner issue for many firms, is now expected by almost one in five firms to be a top budget priority in 2013.

TRADING AND SETTLEMENT

The migration toward electronic trade execution continues, with 42% of all firms now reporting that all trades are handled this way, up from 33% only two years ago (Figure 3). Even at firms where trading is not all handled electronically, manual trades account for a shrinking piece of the pie, falling to an average of 19% of all trades from 36% two years earlier.

Figure 3. Are all trades executed electronically?

% of respondents	ALL	XL	L	M	S	XS
Yes	42.3	53.8	36.4	39.1	46.2	42.3
No	57.7	46.2	63.6	60.9	53.8	57.7

Many firms expanded the number of brokerage relationships in the wake of the financial crisis in an effort to mitigate risk. The pendulum may now be swinging the other way, with managers reducing the number of relationships in a bid to reduce complexity. Firms in this year's survey report an average of 16 brokerage relationships, down from a record high of 20 the previous year.

ACTIVITY METRICS

Based on year-over-year comparisons of survey responses, investment firms appear to have become more efficient when it comes to operational tasks like reporting, reconciliation, and billing. Overall averages and medians fell from 2011 to 2012 across all metrics tracked by the survey (Figure 4).

Figure 4. Investment operations activity metrics

Median	ALL	XL	L	M	S	XS
Hours per month spent reconciling	36.0	150.0	50.0	30.0	20.0	15.0
Hours per quarter spent on reporting	45.0	48.0	90.0	40.0	50.0	31.0
Hours per quarter generating bills and tracking receivables	16.0	40.0	40.0	30.0	10.0	10.0
Business days after quarter end to complete all reporting	10.0	15.0	13.5	10.0	10.0	10.0
Business days after quarter end to invoice all accounts	12.0	15.0	15.0	10.0	10.0	10.0

WEBSITES & SOCIAL MEDIA

Investment firms have not exactly been early adopters of social media. More than two thirds of those surveyed use no social media tools for business purposes. Those who report using social media most often limit their involvement to LinkedIn. The lack of participation does not necessarily stem from trepidation, inertia, or resource constraints. Rather, most firms simply do not see it as adding value to their businesses.

Despite the demonstated lack of enthusiasm, most firms are taking steps to make sure they are positioned to deal with compliance issues; almost three quarters now have social media guidelines in place, up from less than 60% a year earlier (Figure 5).

Figure 5. Does your firm have social media compliance guidelines in place?

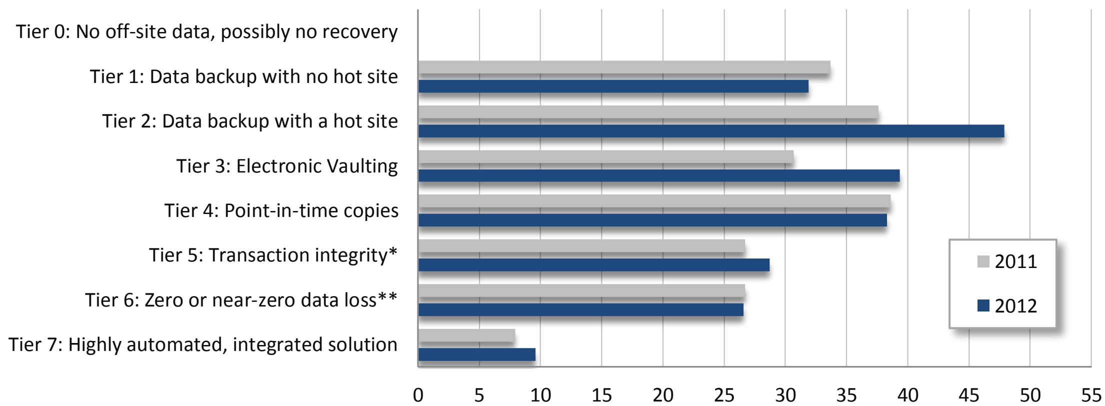
% of respondents	ALL	XL	L	M	S	XS
Yes	73.4	83.3	77.3	87.0	63.6	57.7
No	26.6	16.7	22.7	13.0	36.4	42.3

DISASTER RECOVERY

Given the nature of their business, business continuity is a critical area of focus for investment firms. Disaster recovery consistently ranks as a top budget priority, and firms regularly upgrade their systems and processes to minimize any potential disruption to their businesses. These incremental improvements can be seen in the types of solutions deployed by firms in this year's survey compared to those in prior years (Figure 6).

Figure 6. Disaster recovery solutions currently employed

% of respondents



* Host-based replication

** SAN-based replication

EMPLOYEE BENEFITS

As seen in previous years, insurance benefits of all types are more common at larger firms. Family members are usually covered by insurance plans, but premiums are often subsidized to a lesser degree than they are for employees. On average, 87% of employee health insurance is paid for by companies, compared to 67% for family members (Figure 7).

Figure 7. Percentage of insurance paid by company

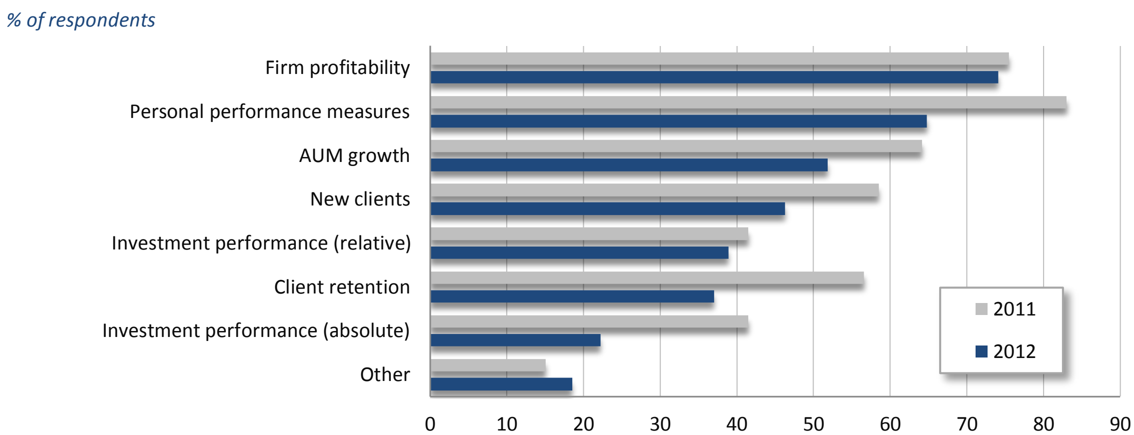
Average %	ALL	XL	L	M	S	XS
Health insurance - employee	87.1	81.7	88.4	86.7	96.8	83.3
Dental insurance - employee	73.5	71.1	66.1	70.2	83.0	92.5
Vision insurance - employee	69.5	66.9	66.8	67.6	79.6	75.0

COMPENSATION STRUCTURE

Investment firms rely on a wide variety of compensation structures to motivate and reward their employees. Cash bonuses often account for a significant part of total take home pay, particularly for investment professionals and senior executives. Equity and option grants are used by just under one third of the firms in the survey. Stock purchase plans are relatively rare, with only 21% of firms offering them to employees.

The use of objective measures to determine bonuses rose again to 64% of all firms from 59% two years earlier. Overall firm profitability remains the most commonly used measure in awarding bonuses, with many firms using it to define the size of the pool, after which personal performance measures are used to calculate individual distributions (Figure 8). Asset growth is still used by more than half of all firms in the survey to help determine bonuses, but it is less prominent than it was a year earlier. The same can be said about client retention.

Figure 8. Objective (non-discretionary) measures used to award incentive pay



COMPENSATION DATA

Compensation rose almost universally in 2011 from the previous year. Across all 41 positions surveyed, an average 82% of all individuals reported higher total compensation than a year earlier.

There were widespread pay increases among senior executives, but changes were relatively subdued. Executive compensation is closely linked to firm size, with those managing larger organizations being paid substantially more than those in charge of smaller firms.

Investment professionals mostly saw their compensation rise in 2011. There is some correlation to firm size, but it is less pronounced than among senior business executives. Median compensation for senior portfolio managers and analysts is roughly twice the amount paid to their less experienced colleagues.

Compensation rose for the majority of sales and marketing professionals, representing a turnaround for some after their compensation fell in 2010. Highlighting an uneven business development climate in a volatile market environment, heads of sales were the least likely of all positions surveyed to have seen an increase from the previous year.

Most operational staff saw their compensation rise in 2011. Heads of portfolio administration were paid approximately 50% more than senior portfolio administrators who were, in turn, paid about 50% more than their junior colleagues.

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:
Amanda Diamondstein-Cieplinska
Senior Public Relations Manager
Advent Software, Inc.
adiamond@advent.com
415.645.1000

Alex Aderton
Director of Membership and Marketing
Investment Adviser Association
alex.aderton@investmentadviser.org
202.293.4222

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

Cover photo: *Blue Integral* by OiMax