2014 SURVEY OF THE ASSET MANAGEMENT INDUSTRY

Operations and Compensation Metrics and Best Practices

Selected Highlights

ADVENT

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INTRODUCTION

Like the economy at large, the asset management industry has recovered in fits and starts from the global financial crisis of 2008. We noted in our 2013 report that the investment business appeared to have regained its footing as strong asset flows finally materialized as equity markets surged upward. The world remains an uncertain place and there have been a series of shocks to financial markets over the past year, but the recovery has picked up its pace. Markets are setting records, managed assets are reaching new highs, and the asset management business is buzzing with activity. Last year's survey participants reported median asset growth of 9.5%. That was a strong performance compared to the preceding years, but it paled next to what followed. Firms in this year's survey revealed median asset growth of a remarkable 19.4% from the previous year.

Much of this growth can be attributed to the buoyant U.S. stock market, but asset flows are also gaining steam. Among the new questions introduced to the survey this year were queries about asset flows. Inflows outpaced redemptions at an average rate of almost seven to one, and net new flows totaled an average 11.5% of total assets under management. New assets are coming from existing as well as new clients. More than four out of five respondents also reported a net increase in the number of clients serviced by their firms. Asset growth generally translates to higher revenues, and this was certainly the case in 2013 as median revenues rose by 14.6% from the previous year, despite fee realizations drifting lower.

Note to Readers

This document contains selected highlights only. Survey participants receive an in-depth 45 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

It is easy to become complacent in a business with such attractive economics, but managers of investment firms face a variety of challenges that demand attention. Distribution dynamics continue to change, product preferences continue to shift, packaging continues to morph, and there has never before been so many competitors vying for the business of institutional and individual investors alike. Making intelligent decisions around operations and personnel has never been more important. Whether prioritizing IT initiatives, budgeting for specific systems, or determining compensation for key employees, insight into the behavior of other investment firms can be vital in making good choices.

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. The survey 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 2014 survey, in which 146 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.

SELECTED FINDINGS

ASSETS

The average firm participating in the survey reported inflows accounting for more than 21% of total assets under management (Figure 1). With redemptions totaling approximately 10% of overall assets, net new assets comprised 11.5% of assets. Large and small firms tended to report more success in raising new assets compared to mid-sized firms that sometimes struggled to find traction.

Figure 1. Asset flows

Average % of AUM	ALL	XL	L	M	S	XS
Gross new assets gained in 2013	21.3	28.0	18.5	13.0	26.8	20.8
Gross assets lost in 2013	9.8	11.3	15.6	5.1	7.4	6.2
Net new assets in 2013	11.5	16.7	2.8	7.9	19.4	14.6

CLIENTS

Responding to a new question in this year's survey, more than four out of five respondents reported a net increase in the number clients serviced by their firms. New clients represented a median 7.7% of all clients, while departing clients represented a median 2.9% of all clients. Most firms experienced overall client turnover (calculated as the net change in the number of clients as a percentage all clients) between 1% and 10% (Figure 2).

Figure 2. Client turnover

Median client turnover

	ALL	XL	L	M	S	XS
New clients in 2013 as % of total	7.7	8.1	6.7	7.8	8.6	6.7
Clients lost in 2013 as % of total	2.9	4.3	4.2	1.7	2.0	1.0
Change in number of clients as % of total	4.5	6.1	3.1	5.4	6.5	6.7

PERSONNEL

Hiring has been widespread but measured. An average 3.2 new employees were hired in 2013, ranging from an average of 8.9 at the largest firms to 0.9 at the smallest firms. Hiring generally exceeded the rate at which employees departed, but the net increase in headcount was modest at all but the largest firms. More than half of all firms saw no change at all in total headcount, and an average increase of 3.4% was heavily influenced by more aggressive hiring at large firms (Figure 3).

Strong asset growth combined with relatively muted hiring meant most firms became more productive, when measured on the basis of AUM per employee. The largest firms in the survey now report a median $231 million per employee versus $190 million a year earlier. Gains at smaller firms were more modest.

Figure 3. Employee turnover

Average % of total headcount

	ALL	XL	L	M	S	XS
New employees as a % of total headcount	10.9	15.2	10.0	6.5	11.5	12.5
Departing employees as a % of headcount	7.5	8.7	7.1	4.1	8.8	9.1
Net change in headcount as a % of total	3.4	6.5	2.9	2.4	2.7	3.4

FINANCIALS

A buoyant market environment and increasingly confident investors helped investment firms grow more quickly and post better financial results than any time in recent memory. Asset growth generally translates to higher revenues, and this was certainly the case in 2013 as median revenues rose by 14.6% from the previous year (Figure 4). The largest firms in the survey posted the most impressive revenue gains, while the improvement at mid-sized firms tended to be more modest. Nevertheless, all AUM cohorts boasted median revenue increases of 10% or more.

Figure 4. Revenue

Median $000s	ALL	XL	L	M	S	XS
2012	6,281.0	30,323.5	8,687.0	6,035.5	3,298.0	1,405.0
2013	7,238.5	34,802.0	9,640.0	7,008.5	3,429.5	1,730.0
1 Year % Δ	14.6	23.8	14.6	12.2	13.1	13.4

A series of new questions in this year's survey focused on the costs associated with different functional groups within investment firms. Economies of scale are clearly visible when labor costs are analyzed in relation to assets. At the smallest firms in the survey, labor costs associated with investments total almost 21 basis points of assets under management. This stands in stark contrast to the less than 8 basis points paid by the largest firms (Figure 5). Economies of scale are mitigated somewhat by the fact that smaller firms tend to enjoy higher fee realizations.

Figure 5. Labor costs by function as a percentage of AUM

Average basis points (bps)	ALL	XL	L	M	S	XS
Investments	12.8	7.7	7.5	15.4	15.9	20.7
Marketing, Sales, and Client service	4.3	2.0	4.4	5.1	4.1	6.7
Administration	6.0	3.1	3.8	8.2	6.2	10.6
Total	23.2	12.7	15.7	28.7	26.3	38.0

IT BUDGET

Spending on technology and operations continues to rise, albeit at a slower pace. IT and operations costs are expected to rise an average 11.5% in 2014 from a year earlier (Figure 6). Asked the same question in 2013, survey respondents projected a 16.6% increase in the size of their budgets. Significant increases are common, but mid-sized firms in particular are directing more dollars toward technology and investment operations.

Driven by growing regulatory demands as well as the need to manage data and knowledge more efficiently, data warehousing is also emerging as a more significant IT initiative. There are, however, a number of others more widely seen as priorities. Network security, for example, is now viewed by more than a third of all firms as a top budget priority. Compliance management is also seen more widely as a top priority.

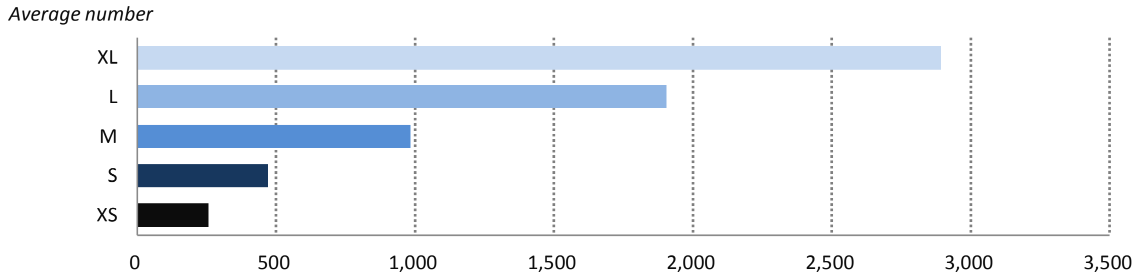
Figure 6. Current and projected IT and operations expenses

Average $000s	ALL	XL	L	M	S	XS
2013	960.5	2,493.4	1,059.5	567.6	334.0	269.1
2014 (est.)	1,079.1	2,873.3	1,166.6	619.6	368.9	286.8
% change	11.5	12.0	11.1	16.7	8.6	8.2

TRADING AND SETTLEMENT

Operational complexity and costs are correlated to the number of and types of portfolios managed. The average firm participating in the survey reconciles and maintains approximately 1,400 portfolios on its system. The average number of portfolios ranges from 257 at the smallest firms to almost 2,900 at the largest firms (Figure 7).

Figure 7. Number of portfolios reconciled and maintained on firm's system



ACTIVITY METRICS

After slipping slightly the previous year, most efficiency measures once again improved in the latest iteration of the survey. Across all firms, a median 31 work hours is spent every month on reconciliation, compared to the 40 reported a year earlier (Figure 8). Similarly, the median time taken to generate bills and track receivables each quarter fell to 20 hours from 22.5 a year earlier. The time required at quarter end to complete all reporting and invoice all accounts also fell to ten business days.

Figure 8. Investment operations activity metrics

Median	ALL	XL	L	M	S	XS
Hours per month spent reconciling	31.0	50.0	62.5	30.0	25.0	20.0
Hours per quarter spent on reporting	50.0	134.0	66.0	55.0	30.0	25.0
Hours per quarter generating bills and tracking receivables	20.0	80.0	30.0	20.0	18.0	10.0
Business days after quarter end to complete all reporting	10.0	18.0	12.5	10.0	10.0	10.0
Business days after quarter end to invoice all accounts	10.0	12.5	15.0	7.5	10.0	8.0

WEBSITES & SOCIAL MEDIA

Investment firms have been slower than many of their corporate cousins in adopting social media. That may be changing, albeit slowly. Almost half of all participants in this year's survey now say their firm has a social media presence, compared to only a third a year ago (Figure 9). Social media in most cases means LinkedIn, the networking platform that is becoming de rigueur for businesses and their employees alike.

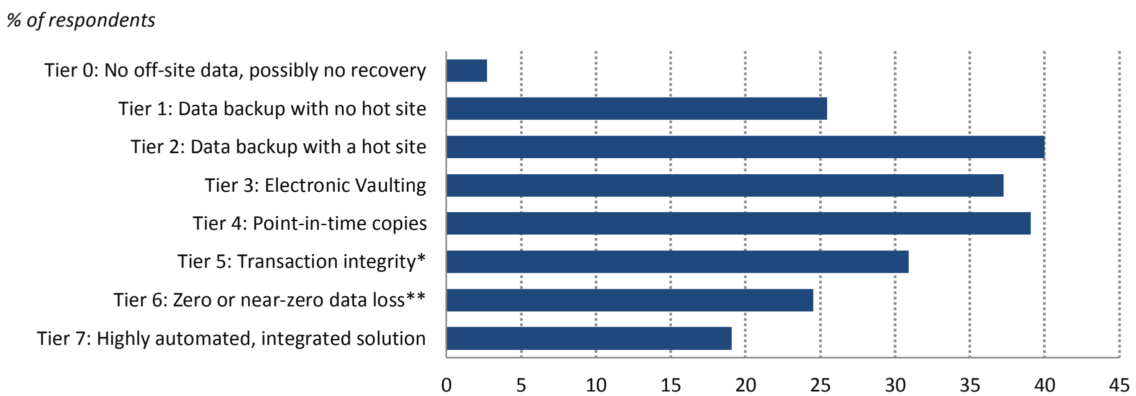
Figure 9. Types of social media used by firm

% of respondents	ALL	XL	L	M	S	XS
None	52.7	33.3	50.0	57.1	62.5	62.5
LinkedIn	46.4	66.7	46.7	42.9	37.5	37.5
A blog	7.1	9.5	6.7	0.0	12.5	6.3
Twitter	6.3	14.3	6.7	0.0	8.3	0.0
YouTube	4.5	9.5	3.3	4.8	4.2	0.0
Facebook	3.6	9.5	3.3	0.0	4.2	0.0
Google+	0.9	0.0	0.0	0.0	4.2	0.0

DISASTER RECOVERY

Business continuity is of critical importance to investment firms. Disaster recovery is consistently ranked as a top budget priority, and the bar continues to be raised as firms upgrade their systems and processes to minimize any potential disruption to their businesses. Higher tier solutions are being deployed more widely, and 19% of firms now report having Tier 7 solutions, meaning that disaster recovery is addressed in a highly automated fashion via an integrated solution (Figure 10). This represents a significant increase from previous years.

Figure 10. Disaster recovery solutions currently employed



** Host-based replication*

*** SAN-based replication*

EMPLOYEE BENEFITS

Because of their potential to improve performance and enable employees to make a greater contribution to the firm, employee training and education are widely seen as particularly important benefits. Training is offered by 87% of all firms participating in the survey, up from 82% of last year's respondents (Figure 11). As another way to support continuing education, nearly half of all firms offer tuition reimbursement. Transit, gym memberships, and lunches are more often subsidized by larger firms than smaller ones.

Figure 11. Additional employee benefits

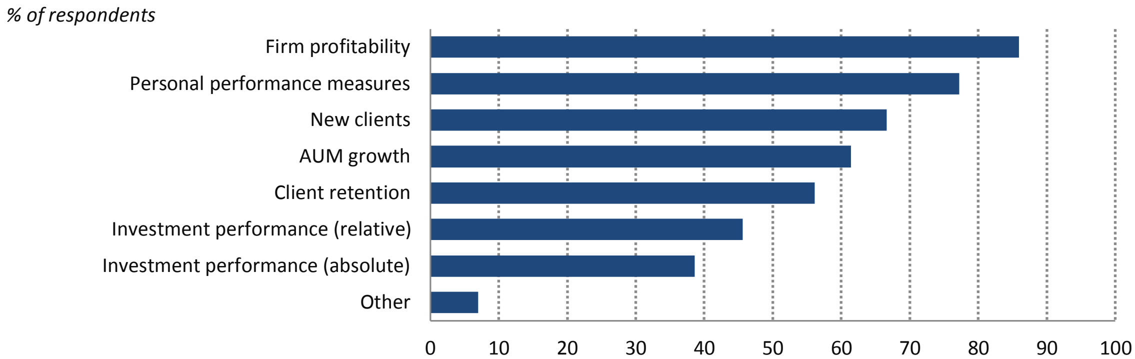
% of respondents	ALL	XL	L	M	S	XS
Training and/or workshops	87.1	90.0	80.8	95.0	90.5	78.6
Tuition reimbursement	47.5	45.0	38.5	60.0	57.1	35.7
Health club memberships	17.8	35.0	19.2	5.0	19.0	7.1
Subsidized transit	17.8	30.0	19.2	20.0	14.3	0.0
On-site cafeteria	14.9	20.0	11.5	15.0	14.3	14.3

COMPENSATION STRUCTURE

Compensation at investment firms tends to be extremely variable compared to most other types of organizations. Market cycles, investment performance, and the supply and demand for highly specialized personnel mean compensation plans need to be designed to accommodate significant changes from one year to the next. Almost all firms rely heavily on annual bonuses to compensate their employees and more than half have a profit sharing plan in place. Long-term incentives are less common, with only 31% of firms granting options (or shares) to their employees. Some of these same organizations also have stock purchase plans, while others have stock purchase plans only and do not make grants.

Overall firm profitability remains the most often used metric when awarding bonuses, followed by personal performance measures (Figure 12). With market appreciation contributing steadily to the growth of assets under management, new client acquisition overtook asset growth as the third most commonly used measure to determine bonuses. This year's survey participants are also placing more emphasis on client retention and absolute investment performance than last year's.

Figure 12. Objective (non-discretionary) measures used to award incentive pay



COMPENSATION DATA

Detailed compensation information was collected for forty positions ranging from CEOs to receptionists. Salary information, incentive pay, and ownership distributions were captured to arrive at total cash compensation figures. Other pieces of information captured at the individual level include experience level and how compensation compared to the previous year. Compensation data was gathered for 1,850 individuals, a 16% increase from the previous year.

The upward trend in compensation gained momentum, with 82% of individuals (excluding new hires) seeing their compensation rise, compared to seven out of ten in last year's survey. A scant 4% saw their compensation fall. Pay increases were widespread across all functions.

The size of compensation packages is correlated to firm size for some, but not all positions. Senior executives in particular are more likely to be paid more at larger firms. Even in their case, the correlation between firm size and overall pay is not particularly strong, with considerable variation within AUM peer groups. Investment professionals, on the other hand, are often paid more at smaller firms. This may reflect the extra incentive necessary to keep key personnel from leaving for greener pastures, but may also indicate a dual role or ownership status.

Professional designations can also make a difference, particularly in the compensation of senior executives. Most leaders have one or two degrees or designations (e.g. MBAs, CFAs, JDs, PhDs, or CFPs). Those with two are, on average, paid 33% more than those with only one. Compensation is correlated to experience levels, but not closely. Overall compensation is just as (if not more) likely to be determined by individual or firm performance as experience.

Most senior executives had pay increases, but those at the top saw some of the biggest. Investment professionals generally saw modest increases in overall compensation from a year earlier. Sales compensation levels changed little, but the range of compensation paid to heads of sales expanded considerably. Senior client service roles also displayed a similar phenomenon. Not buffeted by major swings in variable compensation, operational and administrative roles tended to feature slow and steady growth the previous year. Once again, the complexity and demands of operational roles at the largest firms was underscored by significantly larger compensation packages.

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