2015 SURVEY OF THE ASSET MANAGEMENT INDUSTRY

Operations and Compensation Metrics and Best Practices

Selected Highlights

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INTRODUCTION

Viewed from the vantage point of Q3 2015, the relatively benign environment seen in 2014 is beginning to fade into a pleasant but distant memory. It was a good year for most investment firms. Performance was surging, assets were flowing, and revenues were rising. The pace of growth may have been a little slower than the preceding year but happy clients, healthy margins, and bigger paychecks made it easy to sleep at night.

In a stable and slow-moving business like investment management, it can be easy to overlook emerging challenges. This may not matter much in a year like 2014. But sweating the details becomes much more important in a year like 2015 when markets aren't cooperating, clients are increasingly dissatisfied, and competition for assets intensifies.

Industry metrics become critical in times like these. Competitive intelligence can assist managers in making crucial decisions and avoiding costly operational missteps. It is for these reasons AUG, an independent organization of wealth managers, investment advisors and family offices, launched an annual survey to provide leaders in the investment 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.

SS&C Advent and the Investment Adviser Association co-sponsored the 2015 survey, in which 124 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 45 page report along with a full set of data tables tabulated by asset size (see right).

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

ASSETS

Asset flows in 2014 were strong but off the pace seen in the prior year. The average firm participating in the survey reported inflows accounting for 14% of assets under management, compared to 21% a year earlier (Figure 1). The average rate of redemptions or withdrawals declined slightly (down to 8% of overall assets from 10% the previous year), but net asset flows of 6% were nevertheless only half of the 12% seen the previous year.

Figure 1. Asset flows

Average % of AUM	ALL	XL	L	M	S	XS
Gross new assets gained in 2014	13.7	10.8	16.6	13.8	11.5	15.1
Gross assets lost in 2014	8.0	5.1	7.9	13.4	6.2	6.6
Net new assets in 2014	5.7	5.8	8.8	0.4	5.3	8.5

CLIENTS

Client turnover ticked up from a year earlier. While most firms saw an overall gain in the number of clients, the pace of client acquisition slowed, with the average percentage net change in clients falling to 5.5% from 7.7% the previous year (Figure 2). Most firms experienced net client turnover in the 1% to 10% range.

Figure 2. Client turnover

Average client turnover

	ALL	XL	L	M	S	XS
New clients in 2014 as % of total	11.2	11.9	11.4	7.8	6.8	17.4
Clients lost in 2014 as % of total	5.5	5.7	6.0	8.2	3.4	3.1
Change in number of clients as % of total	5.7	6.2	5.4	(0.4)	3.4	14.3

PERSONNEL

Hiring activity accelerated in 2014, with an average of 3.9 new employees added to payrolls, compared to 3.2 a year earlier. The largest and smallest firms in the survey have been the most active in hiring new employees (Figure 3). New hires have to come from somewhere, and the fact that they are often lured from other firms in the industry is highlighted by rising turnover rates. Firms in the survey reported losing an average 8.7% of employees in 2014, compared to 7.5% the previous year.

Figure 3. Employee turnover

Average % of total headcount

	ALL	XL	L	M	S	XS
New employees as a % of total headcount	12.7	15.2	11.8	10.1	10.2	15.8
Departing employees as a % of headcount	8.7	7.5	7.5	9.1	10.0	10.4
Net change in headcount as a % of total	3.9	7.7	4.3	1.0	0.2	5.4

FINANCIALS

With the wind at their backs in the form of strong market performance, most firms posted strong financial results in 2014. While not on pace with the previous year's record setting pace, 8% median asset growth nevertheless represented a solid increase for many survey participants. Revenue growth was even more impressive, with 14.5% growth on par with last year's results (Figure 4). Revenue growth was strong across all AUM cohorts, and 86% of all firms reported year-over-year growth.

Personnel costs are of course a key driver of overall expenses at investment firms. The cost of investment professionals averaged 11.7 basis points (bps) across all firms (Figure 5). While XL firms reported average investment labor costs of 9.0 bps (and a median of 6.5 bps), the same costs were almost invariably much higher at smaller firms. Overall labor costs accounted for an average 22.8 bps across all firms, but ranged from an average of 14.6 bps at XL firms to 34.6 bps at the smallest. The size advantage of large firms is mitigated to some degree by the higher fee realizations of smaller advisors. Labor costs still account for a higher proportion of revenues at smaller firms, but the difference is more muted.

Figure 4. Revenue

Median $000s	ALL	XL	L	M	S	XS
2013	9,000.0	27,000.0	13,362.0	6,100.0	4,602.5	1,475.0
2014	9,627.0	29,066.0	17,350.0	7,100.0	5,469.0	1,471.5
1 Year % Δ	14.5	14.0	15.5	14.2	13.1	14.0

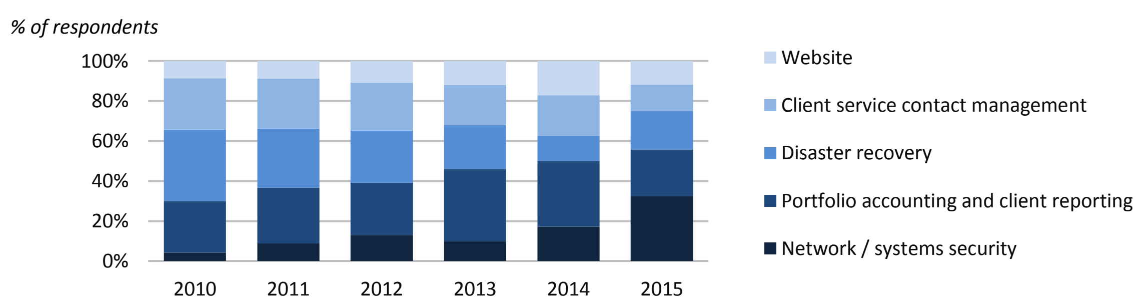
Figure 5. Labor costs by function as a percentage of AUM

Average basis points (bps)	ALL	XL	L	M	S	XS
Investments	11.7	9.0	9.5	15.5	13.4	16.3
Marketing, Sales, and Client service	5.5	2.1	4.8	6.1	8.2	10.8
Administration	5.7	3.4	5.1	5.8	10.5	7.4
Total	22.8	14.6	19.4	27.4	32.1	34.6

IT BUDGET

Factors contributing to the rise in technology costs are generally consistent from year to year. This year, however, there was is a notable emphasis on network security as well as disaster recovery. Given this, it hardly comes as a surprise that both of these would most often be named among the top IT initiatives over the coming year. The growing emphasis on security is also clearly evident in longer term trends. The percentage of firms naming network security as their most important IT initiative grew tenfold over the past five years (Figure 6).

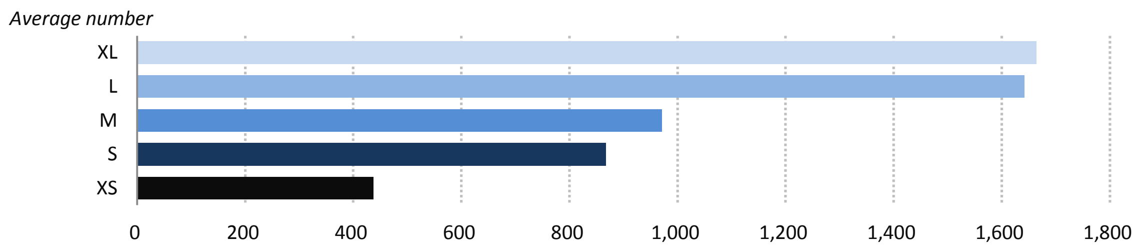
Figure 6. Top IT initiative over the coming year (selected choices only)



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 1,200 portfolios on its system. The average number of portfolios ranges from 437 at the smallest firms to almost 1,664 at the largest firms (Figure 7). The vast majority is reconciled electronically. Trade errors are not common but they nevertheless extract costs. The average firm in the survey reported eight trade errors, with the actual number of errors correlated to firm size.

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



ACTIVITY METRICS

Most efficiency measures were on par with what was has been reported in recent years. Firms in the survey spend a median 40 hours monthly on reconciliation, for example, although it can range from 25 hours at the smallest firms to 60 hours at the biggest (Figure 8). The time spent on reporting every quarter is one of the most variable metrics, ranging from a median of 20 hours at the smallest firms to 160 hours at the largest. Despite devoting more resources to the task of reporting, the largest firms nevertheless take a median 15 days after quarter end to complete all of their reporting, compared to a more standard 10 days at small and mid-sized firms. Quarter end invoicing also takes longer at big firms.

Figure 8. Investment operations activity metrics

Median	ALL	XL	L	M	S	XS
Hours per month spent reconciling	40.0	60.0	60.0	27.0	30.0	25.0
Hours per quarter spent on reporting	52.5	160.0	60.0	40.0	60.0	20.0
Hours per quarter generating bills and tracking receivables	20.0	40.0	30.0	20.0	10.0	10.0
Business days after quarter end to complete all reporting	10.0	15.0	12.5	10.0	10.0	10.0
Business days after quarter end to invoice all accounts	10.0	15.0	16.0	12.0	9.0	7.0

WEBSITES & SOCIAL MEDIA

Social media may have taken the world by storm, but its adoption by investment firms has been tentative. Nevertheless, while the 43% of respondents saying their firm uses no social media may seem high, it has fallen steadily from 72% in 2011 when this question was first included in the survey. LinkedIn continues to be the most important social media tool for most investment firms, but all other platforms are also being used to a greater degree than they have in the past. Twitter, for example, is now being used by more than one in ten firms, with smaller organizations in particular finding it a useful communication tool (Figure 9).

Figure 9. Types of social media used by firm

% of respondents	ALL	XL	L	M	S	XS
LinkedIn	56.0	65.2	58.3	52.4	56.3	43.8
None	43.0	34.8	41.7	47.6	43.8	50.0
Twitter	11.0	8.7	8.3	14.3	12.5	12.5
A blog	10.0	4.3	8.3	19.0	12.5	6.3
Facebook	7.0	0.0	4.2	14.3	18.8	0.0
Google+	5.0	4.3	0.0	4.8	12.5	6.3
YouTube	5.0	4.3	0.0	9.5	12.5	0.0

DISASTER RECOVERY

Business continuity is important to any business, but the ability to recover quickly and resume operations in the event of a disaster with a minimum loss of data is absolutely vital to investment firms. Recovery point objectives (RPOs) are points in the past to which a system can be restored in the event of a disaster. It is not uncommon to have RPOs of 15 minutes or less, but they can be a day or more in the past. A growing number of firms are reporting RPOs close to real time, i.e. at the point of failure. Most RPOs are within a few hours. Trade order management (TOM), CRM, and portfolio accounting systems are usually viewed as mission critical and often feature the most aggressive RPOs (Figure 10).

Figure 10. Recovery Time Objective (RTO) by system

% of respondents	< 1 hr	2 hrs	4 hrs	8 hrs	12 hrs	16 hrs	24 hrs	48 hrs	72 hrs
Trade order management	29.0	15.0	19.0	4.0	3.0	0.0	22.0	6.0	2.0
CRM	28.0	10.0	11.0	8.0	5.0	0.0	22.0	9.0	7.0
Compliance	20.0	12.0	11.0	9.0	4.0	0.0	31.0	5.0	8.0
Portfolio accounting	19.0	12.0	18.0	8.0	3.0	0.0	27.0	11.0	2.0
Reconciliation	19.0	10.0	16.0	9.0	4.0	0.0	26.0	11.0	5.0
Reporting	18.0	8.0	11.0	8.0	4.0	1.0	27.0	8.0	15.0
Billing	16.0	9.0	12.0	5.0	3.0	1.0	22.0	11.0	21.0

EMPLOYEE BENEFITS

Training and education are increasingly recognized as important benefits, not least because they are valuable to both employee and employer. Training is now offered by 92% of all firms, the highest percentage ever recorded by this survey (Figure 11). Training budgets can range as high as $25,000 per employee but are generally more modest. The median training budget per employee is $1,000, with an average of $3,400. As another way to support continuing education, nearly half of all firms offer tuition reimbursement. Average reimbursement is 80% of cost, but more than half of all firms offer full reimbursement.

Figure 11. Additional employee benefits

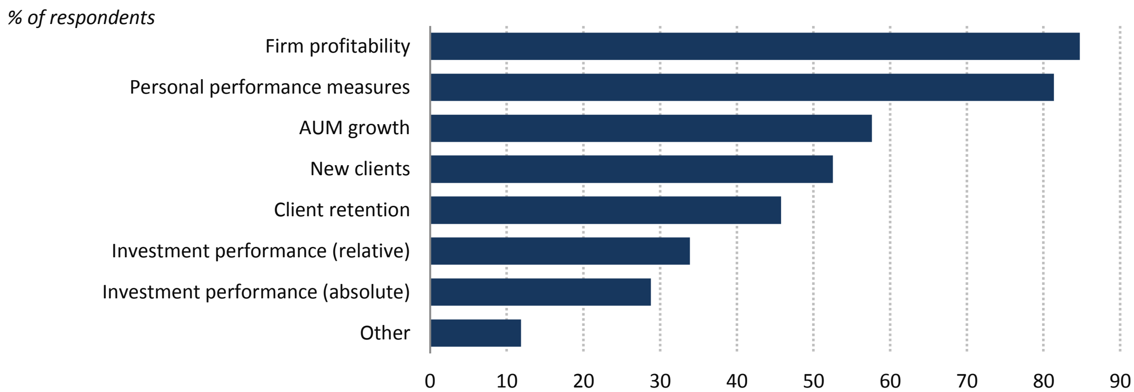
% of respondents	ALL	XL	L	M	S	XS
Training and/or workshops	91.6	100.0	82.6	94.7	86.7	93.3
Tuition reimbursement	47.4	56.5	43.5	57.9	46.7	26.7
Health club memberships	17.9	34.8	13.0	15.8	6.7	13.3
Subsidized transit	16.8	13.0	13.0	36.8	13.3	6.7
On-site cafeteria	14.7	21.7	21.7	10.5	0.0	13.3

COMPENSATION STRUCTURE

Annual bonuses remain the cornerstone of compensation plans at investment firms. They are used by 95% of the firms in the survey. Profit sharing remains another popular way to award variable compensation and is used by 62% of the firms in the survey. Long-term incentives in the form of equity, phantom units, options, and other similar vehicles are somewhat less common.

It is not unusual for bonuses to be entirely discretionary, but more than three out of five firms also use concrete metrics to help determine the size of their bonus pool and/or individual awards. Overall firm profitability remains the most often used metric when awarding bonuses, followed by personal performance measures (Figure 12). Growth (measured by client acquisitions or increases in AUM) came next, followed by client retention. Investment performance was emphasized less among firms in this year's survey, with relative performance in particular falling to a record low 33%.

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. Experience levels and changes in compensation from the previous year are also captured. Compensation data was gathered for 1,677 individuals.

Compensation continued to trend upward, with more than 70% of individuals reporting higher pay than the previous year in every position analyzed. Declines were extremely uncommon, and it was rare for more than 10% of those in any given position to report falling compensation.

Total compensation is correlated to firm size for some senior management positions, but is not a major contributing factor for most jobs. Investment professionals in particular are more highly valued as members of small teams and receive commensurately higher compensation. When it does occur, higher compensation at smaller firms can also reflect dual roles, ownership status, or both.

Rather than size, the type of firm in question often has a material bearing on senior management compensation levels. Median total compensation paid to CEOs of asset management firms, for example, was more than 30% higher than compensation paid to CEOs of firms identifying themselves as Independent RIAs. Variation by firm type extends to investment positions as well, with senior and junior portfolio managers at asset management firms tending to earn significantly more than their peers at RIA firms.

Average compensation for CEOs rose 15% from a year earlier, as a growing number were awarded substantial long-term incentives. Median total compensation for CEOs rose a more modest 7%, and upper and lower quartiles remained relatively unchanged.

Most investment professionals saw steady gains in the value of their compensation packages. Medians were generally slightly higher than what was reported the previous year, while averages were higher across the board.

Despite widely reported increases, median compensation for many sales and marketing positions was somewhat lower than what was reported by last year's survey respondents. Client service positions universally demonstrated solid increases over the prior year and Heads of client service now earn almost as much as their business development colleagues.

Compensation for operational and administrative roles does not change dramatically from year to year. Heads of portfolio accounting, for example, saw median total compensation climb less than 3% from a year earlier. Senior portfolio administrators similarly saw median compensation rise a modest 4.4%. The oversight of operations at larger, more complicated organizations is generally rewarded with higher compensation.

ABOUT

AUG

AUG is an independent organization formed in 1998 by a group of investment professionals who utilized Advent products and saw the benefits that a user group could have in sharing information and providing valuable feedback to Advent Software. Today, the user-driven AUG boasts nearly 300 member firms pursuing its mission to be the core person-to-person networking resource for the wealth and investment management industry. Members benefit through face to face events, conference calls, webinars, and surveys by sharing best practices and solutions, developing resourceful relationships through networking, and staying abreast of regulatory, product and industry updates. For more information about the independent organization or its member services, visit www.adventusersgroup.com.

Erin E. Kestner, who was instrumental in the development and ongoing confidential administration of this survey, is AUG's Director of Development for Member Services and Sponsorships. Prior to joining the AUG staff in 2006, Erin spent over 11 years working for a large cap growth manager. She has experience in the areas of operations and performance measurement, but spent the majority of her career as Director of IT and Information Management. She is a former member of Institutional Investors' Financial Technology Forum, of AUG and is a Past President of the AUG Board of Directors. Erin earned her BA in Mathematics from Denison University, in addition to studies at the University of Nottingham and the University of Chicago Graduate School of Business.

SS&C ADVENT

Advent, a business unit of SS&C Technologies, is helping over 4,300 investment firms in more than 50 countries—from established global institutions to small start-up practices—to grow their business and thrive. Delivering unparalleled precision and ahead-of-the-curve solutions for more than 30 years, we help firms minimize risk, work together seamlessly with our clients, and help shape the future of investment management. For more information on Advent products visit www.advent.com.

INVESTMENT ADVISER ASSOCIATION

The Investment Adviser Association is the leading nonprofit organization that exclusively focuses on the interests of SEC-registered investment advisers. The IAA's more than 550 member firms collectively manage assets of $16 trillion for a wide variety of individual and institutional clients. The IAA adds value to members through its comprehensive range of advocacy, compliance, and educational services and resources. For more information, visit www.investmentadviser.org.

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Steven Unzicker is the founder of ANZU, a research and consulting company specializing in the asset management industry. ANZU provides industry executives with strategic advice as well as tactical guidance on product development, marketing plans, and thought leadership initiatives. Over the past fifteen years, Steve has designed and conducted numerous surveys of money managers and investors on topics including compensation, operations, technology, compliance, and research management. Prior to launching ANZU, Steve was the Director of Research for the Business Strategy Group at CRA RogersCasey. Previously, he managed the strategy consulting group at Investment Counseling, a boutique consultancy. He earned an MBA from London Business School and a BA from the University of Chicago.

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