2008 Asset Management

Operations and Compensation Survey

Selected Highlights

INTRODUCTION

2008 will go down in history as a watershed year for the financial services industry. Faced with a procession of defining moments – each more dramatic than the last – no one can claim with any confidence that they know how the current situation will play out. A few things are certain. The roster of key industry players is already being shuffled. Investor habits and appetites will continue to evolve dramatically. Regulatory oversight will expand. Not all firms will make it, but some will not only survive but thrive, proving that they can add value to their clients in good times as well as bad.

It will not be easy going. A meritocratic environment, stable fee income, high margins and relatively low barriers to entry have always conspired to keep asset management a fragmented and competitive industry. Globalization has intensified both by introducing new competitors while simultaneously offering up the promise of new markets, products, and human capital. The distribution and product landscapes were already evolving rapidly well before the current liquidity crisis. A mounting preference for outcome-oriented products over style box strategies, the growing influence of platforms, and radical innovations in packaging (e.g. active ETFs) were among the challenges that managers already faced on that front.

The companies that effectively meet the array of challenges facing them as 2008 draws to a close will be those that can strategically adapt to the changing environment while making intelligent tactical decisions. In an effort to highlight emerging trends and provide benchmarking data that can help asset management executives make those decisions, this survey is conducted periodically by the Advent Users Group (AUG), an independent organization of Advent product users. It focuses on two areas of vital interest to financial services firms: their technology and people.

Note to readers

The contents of this document are only the tip of the iceberg. Survey participants receive an in-depth 40 page report in addition to a full set of data tables with statistical analyses tabulated by asset size as well as 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 next year's survey.

AUM Peer Groups

ALL	**All**
XL	**>** $5B AUM
L	$2B - $5B AUM
M	$1B - $2B AUM
S	**$**500M - $1B AUM
XS	**<**$500M AUM

Geographic Peer Groups

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

Aided by the sponsorship of Advent Software and the Investment Advisers Association, the 2008 survey was able to expand beyond AUG members and Advent clients, resulting in one of the most robust datasets of its kind. Participation in the survey, which was conducted during July and August of 2008, rose almost 50% from the previous year to a total of 147 firms. Compensation data was collected for 1057 individuals across 41 positions.

All surveys benefit from increased participation, and this one is no different. 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	Technology & Operations	Human Capital
Products	Budget	Employee benefits
Packaging	Systems	Compensation structure
Personnel	Investment operations	Compensation by position
Financials	Web site	
	Business continuity	

SELECTED FINDINGS

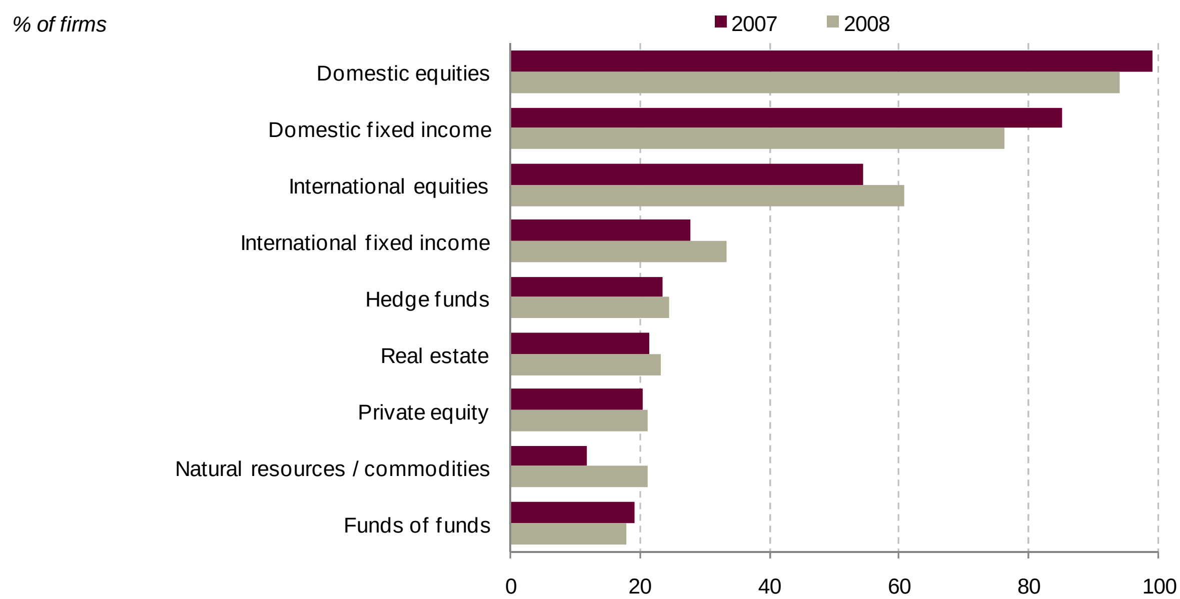
Product and Client Types

All asset managers want to grow. It is their raison d'être. Along with its myriad benefits though, growth presents challenges, not least in the form of greater complexity. Successful firms have managed their way through (and in some cases embraced) complexity to reach staggering proportions, but it can still be daunting for smaller managers.

One trend having a profound effect on managers of all sizes is the proliferation of products. Even amid the rampant uncertainty of today's market, it is fair to say the market has irrevocably moved on from the days when investors would simply allocate their dollars among a few specialist managers offering one or two U.S.-centric style box products. Sophisticated intermediaries guiding both individual and institutional investors are employing a wide-ranging set of products and packages in an effort to create specific outcomes for their clients, capturing alpha or mitigating risk in far-flung corners of the globe. This trend is highlighted by the breadth of products offered by this year's survey participants (See Figure 2).

The percentage of companies managing at least some alternative products remains steady (38% in 2008 vs. 40% in 2007), and larger organizations continue to be more likely to manage alternatives than smaller ones. One notable change from last year is the shrinking number of firms introducing new products, whether traditional or alternative. Reflecting the challenging market environment, 72% do not plan to introduce any new asset classes over the coming twelve months. Among those that will introduce new products, hedge funds, private equity, and funds of funds are the most popular. It would come as no surprise if these plans were being reevaluated in light of more recent events.

Figure 2: Asset classes currently managed



IT and Operations Budget

IT and operations spending continues to grow, albeit more slowly. More managers may be taking the current downturn as an opportunity to step off the wheel. In 2007, only 31% said they expected spending on IT and investment operations to decrease or not change over the coming year. In 2008 that figure rose to 44% (See Figure 3).

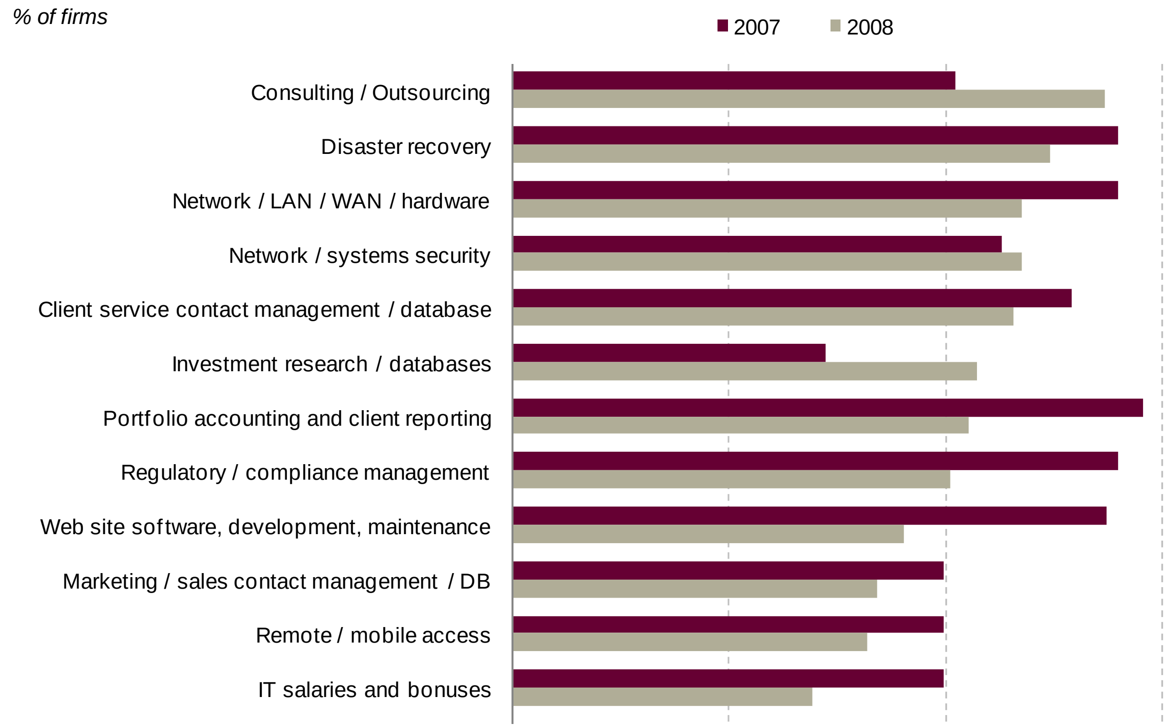
Figure 3: Firms reporting flat or decreasing IT & Ops spending

% of Firms	ALL	XL	L	M	S	XS
2008	31.1	27.3	33.3	23.5	34.5	31.8
2009	43.7	36.4	50.0	35.3	48.3	43.2

Spending continues to be driven externally and internally. In this hyper competitive market, institutional and individual investors alike are exposed to more choices than ever before. Their expectations raised, they naturally expect more from their money managers. They are not alone. Regulators demand better. Competitors raise the ante. This fierce cycle of reinvestment is exacerbated by the rate of change within the technology itself.

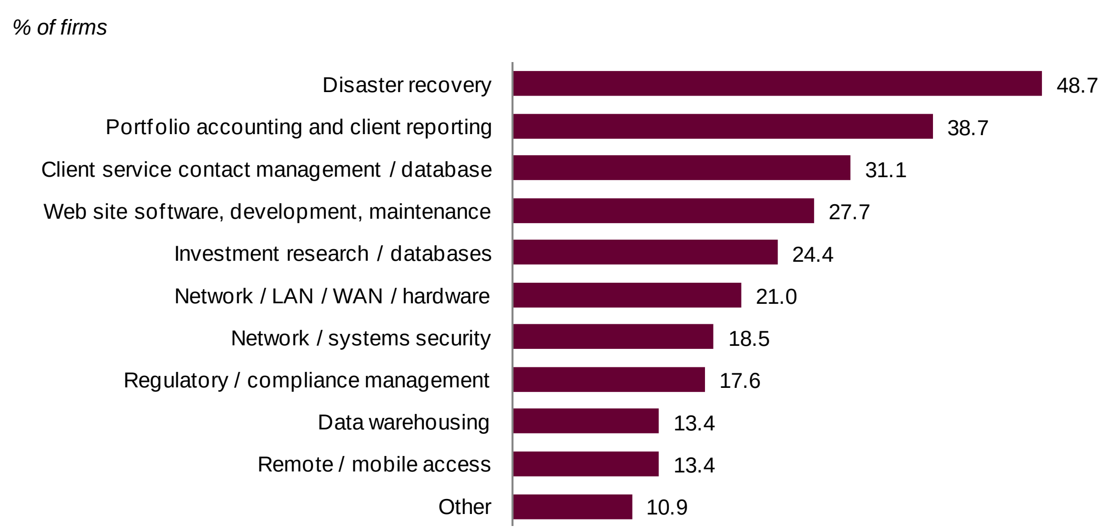
The drivers of expense growth change with the times. In 2007, portfolio accounting, compliance management, and web development were three of the top five reasons for rising IT costs. In 2008, none were in the top five. Instead, consulting and outsourcing led the pack, cited by more than half of all respondents as a factor in rising costs. The other area cited by a rapidly growing group of firms is the requirement for increasingly sophisticated systems and processes surrounding investment research (See Figure 4).

Figure 4: Factors causing IT costs to rise



Priorities can vary wildly from firm to firm, but there is widespread agreement that at least one type of IT initiative is critical: Almost half of all firms said disaster recovery was among their top three IT initiatives during the coming year (See Figure 5). This trend will gain further momentum if companies use today's volatile climate as an opportunity to assess business risks more carefully and holistically.

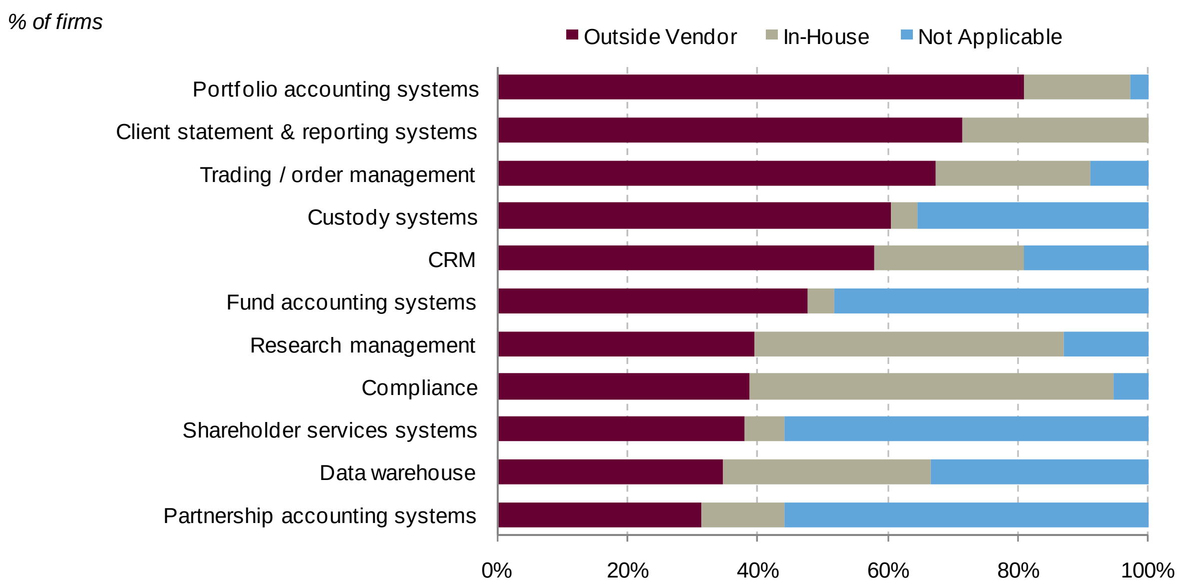
Figure 5: Top IT initiatives over the coming year



Outsourcing

The network of operational partners making up the average asset manager's ecosystem increasingly involves technology firms on whom most managers rely to develop key systems. Asset managers now rely so heavily on outside providers that compliance systems are the only type that a majority of respondents indicate they have developed in-house (See Figure 6).

Figure 6: Systems developed in-house or by outside providers



Activity Metrics

The time needed to complete periodic operational tasks is strongly correlated to firm size. Having to deal with more products, clients, portfolios, intermediaries, and service providers, larger firms naturally report more work hours being spent on areas such as reconciliation, reporting, and billing than small firms. Even with their ability to devote more resources to these activities, it may come as a surprise to see that larger firms consistently take longer to finish each task. The largest firms, for example, take an average of 19 days to complete quarterly reporting on all portfolios and 23 days after quarter end to invoice all accounts. By way of comparison, the smaller firms take 9 and 6 days, respectively (See Figure 7).

Figure 7: Investment Operations Activity Metrics

Average	ALL	XL	L	M	S	XS
Work hours spent reconciling per month	116.8	357.0	299.2	70.8	50.8	35.4
Work hours spent on reporting per quarter	119.9	307.0	211.5	176.6	63.7	52.3
Work hours generating bills and tracking receivables per quarter	61.6	256.2	113.3	41.1	33.5	14.7
Business days after quarter end to complete all reporting	12.1	19.0	15.0	12.6	11.6	9.3
Business days after quarter end to invoice all accounts	11.3	22.9	15.2	12.4	11.2	6.5

COMPENSATION AND BENEFITS

As important as systems and processes have become, most asset management firms remain people businesses at their core. Unlike the not-so-distant past, though, one would be hard pressed to build a business around a single gifted investor today. Effectively harnessing human capital in this environment means acquiring and retaining the right individuals across the full range of functions.

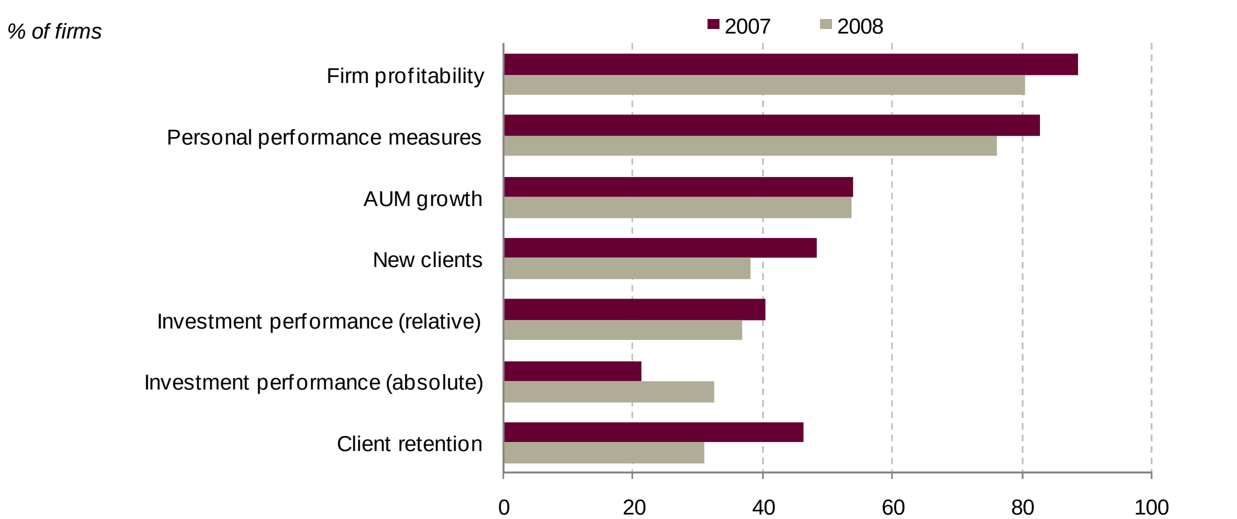
It has been observed that how one gets paid can be just as important as how much. Poorly designed or badly communicated compensation schemes can quickly erode morale. Some organizations continue to divvy up the pot at the end of the year based on subjective assessments, but even more are employing carefully constructed systems of incentives to encourage specific behaviors and provide greater clarity to employee, manager, and client alike. These incentive plans often rely at least partially on objective (i.e. non-discretionary) measures of performance. This practice is highly correlated to firm size, with almost half of the smallest firms continuing to rely on discretionary awards exclusively (See Figure 8).

Figure 8: Use of objective measures in awarding of incentive compensation

% of Firms	ALL	XL	L	M	S	XS
Yes	62.3	90.9	72.2	68.8	55.6	52.4
No	37.7	9.1	27.8	31.3	44.4	47.6

Among the many objective performance measures used to award bonuses, firm profitability remains the one employed most often. Individual performance measures, AUM growth, and new client acquisition remain in the 2nd, 3rd, and 4th spots for the second straight year. Further down the list, it is worth noting that client retention is being looked at less while absolute investment performance is being measured more often (See Figure 9).

Figure 9: Objective (non-discretionary) measures used to award incentive pay



Compensation Data

Detailed compensation data was once again collected across a wide range of 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 1057 individuals.

Full tabulated results are available to survey participants. Some highlights:

- Most positions enjoyed modest gains from the previous year. Across the 41 positions surveyed, the average increase was 15%. Median compensation by position climbed an average of 16%.
- The majority of people also saw their compensation increase from 2006 to 2007. At most positions, 70% or more (even higher if new hires were excluded) enjoyed a pay raise.
- Mid-level positions were often more likely to see larger year-over-year increases in compensation.
- Capping bonuses as a percentage of salary is very uncommon. It is almost unheard of among C-level executives and remains relatively rare among other professionals as well as administrative staff. Only 20% of receptionists, for example, have their bonuses capped in such a way.
- CEO compensation stayed relatively steady year on year. Average and median values crept up, but the current financial crisis was only beginning by the end of 2007, and its eventual scope was not foreseen by many in the industry. There is little doubt that the financial crisis of 2008 will prove particularly detrimental to CEO compensation.
- There was significant compression in the range of compensation paid to Chief Investment Officers.
- Reflecting the heightened regulatory environment, the median compensation paid to Chief Legal/Compliance Officers rose 30% from the previous year. Average pay rose 24%.
- Heads of Sales have not been so lucky. Dependent on asset flows and the commissions that accompany them, this position is a leading indicator when it comes to compensation. As such, these individuals saw their fortunes decline during 2007 as investors held back amidst a jittery market. Median compensation plummeted 33% as markets dried up.

Following are some high level charts illustrating the annual change in compensation among a handful of positions surveyed (See Figures 10 and 11).

We conclude this summary by providing the Table of Contents from the full report (Figure 12) as well as lists of the exhibits shown (Figure 13) and positions surveyed (Figure 14). These are provided in order to demonstrate the scope of the survey and the depth of the analysis made available to survey participants.

Figure 10: Change in total compensation - Executives

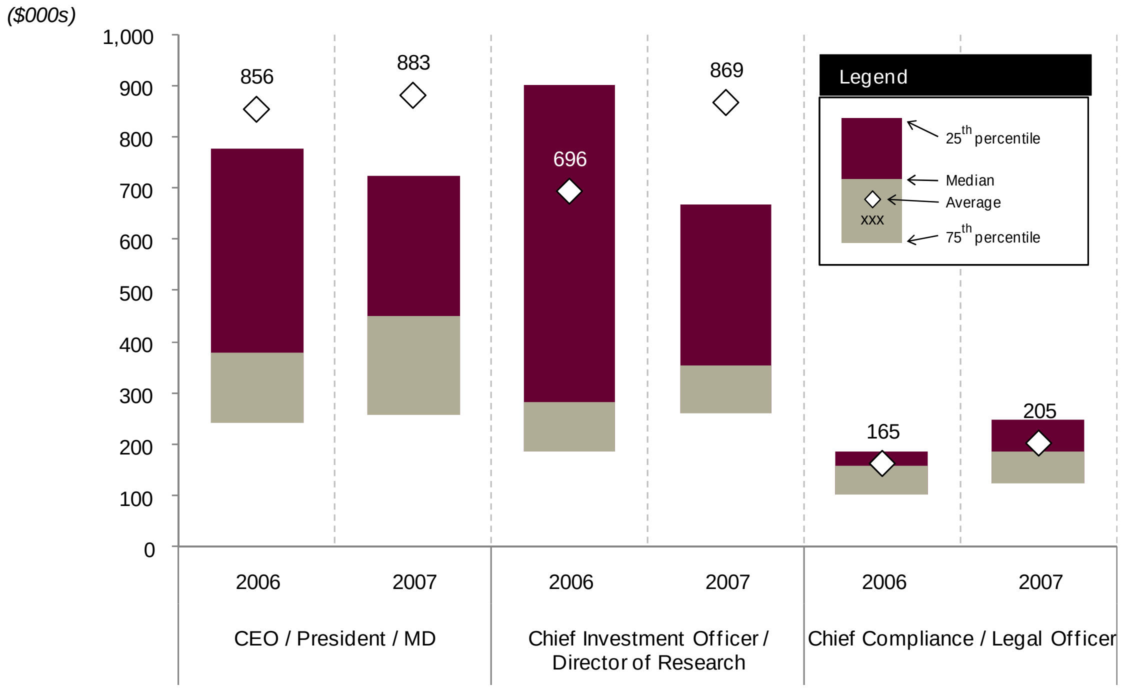


Figure 11: Change in total compensation - Sales

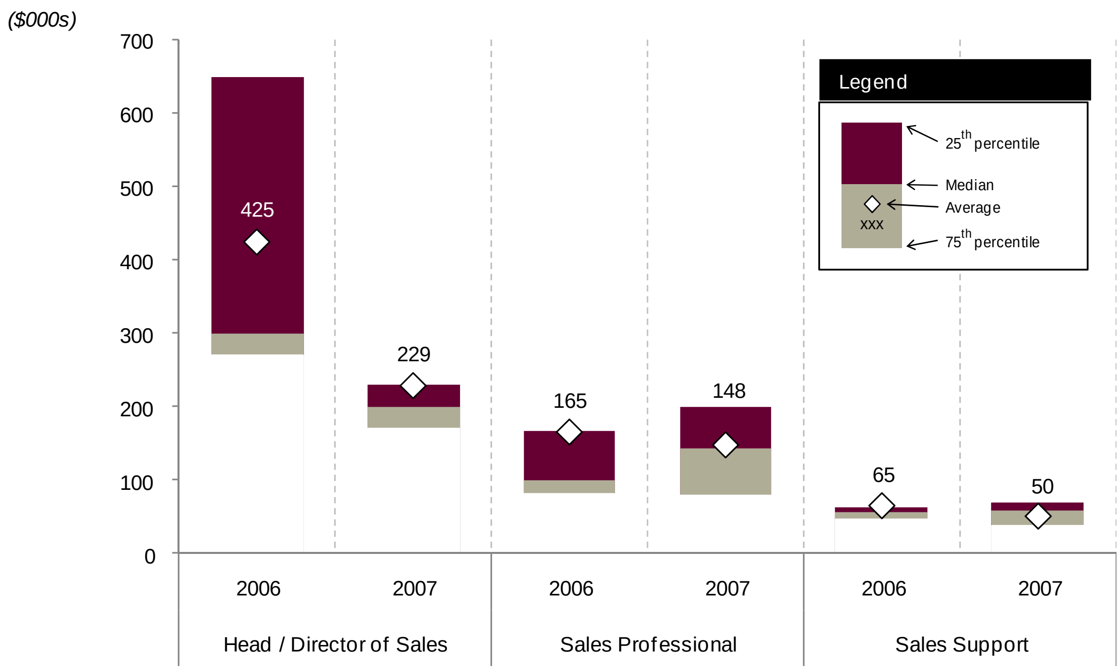


Figure 12: Full Report Table of Contents

Figure 13: List of Exhibits in Full Report

Asset classes currently managed	Number of custodians dealt with regularly
Asset classes planned	Level to which performance is calculated
Socially responsible investing screens used	Benchmarks used
Percentage of AUM by client type	GIPS compliance
Product packages offered as % of AUM	GIPS verified firms
Functional headcount as % of total	Investment operations activity metrics
AUM per employee	Features and functions on website
Revenue	Disaster recovery solutions currently employed
Fee realization	Recovery Time Objective (RTO) by system
Current IT and operations expenses	Recovery Point Objective (RPO) by function
Projected IT and operations expenses	Types of insurance offered
Distribution of IT and operations spending	Percentage of insurance paid by company
Factors causing IT costs to rise	Flexible health plans
Top IT initiatives over coming year	Other types of coverage offered
Functions performed internally or outsourced	Retirement plan options
Systems developed in-house or outside	Employee leave policies
Percentage of trades on trade networks	Determining vacation eligibility
Number of brokerage houses used regularly	Days off
Trades executed with directed brokers	Additional employee benefits
Method(s) of notifying brokers of allocations	Types of incentive compensation offered
Method(s) of notifying custodians of allocations	Use of objective performance measures
% of accounts reconciled electronically	Specific non-discretionary measures used
% of accounts reconciled manually	Commission schedules

Figure 14: Positions Surveyed

Compensation data is reported in the full report in the form of experience levels, compensation by AUM peer group, quartile analysis, and year-over-year percentage changes.

The following positions are analyzed:

President, CEO, Managing Partner	Client Service Professional
Chief Operating Officer	Client Service Support
Chief Investment Officer, Director of Research	Head of Sales
Chief Financial Officer	Senior Sales Professional
Chief Technology / Information Officer	Sales Professional
Chief Legal / Compliance Officer	Sales Support
Head of Human Resources	Head of Portfolio Accounting and Administration
Senior Portfolio Manager	Operations Manager
Portfolio Manager	Senior Portfolio Administrator / Accountant
Senior Research Analyst	Portfolio Administrator / Accountant
Research Analyst	Other Operations
Senior Trader	Senior Compliance Professional
Trader	Compliance Professional
Other Investment Specialist	Compliance Support
Head / Director of Marketing	Internal Auditor
Senior Marketing Professional	Office Manager / Administrator
Marketing Professional	Administrative Assistant
Marketing Support	Internal Accountant / Bookkeeper
Head of Client Services	Network Administrator, IT Support
Senior Client Service Professional	Receptionist

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