

**OPERATIONAL
PERFORMANCE OF BROKERS**

**Equities and Fixed Income
Europe - 2003**

Summary of Findings

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1. Introduction

1.1 Scope of Study

This document is a summary of the report of the Operational Performance of Brokers - Market Survey - Europe 2003 carried out by Z/Yen Limited for a consortium of 11 major Broker/Dealers.

The study was performed based on individual interviews using a structured questionnaire, as developed by Z/Yen and the participating Brokers (the Brokers). 59 leading Asset Management companies (the Clients) were interviewed between September 2003 and November 2003.

A list of the Clients interviewed can be found in section 4.

1.2 Approach

The approach adopted for this study was as follows:

- Z/Yen set up and facilitated a series of workshops with the Brokers to agree and finalise scope, structure, format and questions;
- The Brokers selected the Clients who they wished to be interviewed and introduced Z/Yen to senior operations personnel;
- Z/Yen performed the interviews and documented responses and additional comments;
- Z/Yen published the findings and presented these to the Brokers.

1.3 Confidentiality of Results

The Clients and the Brokers provided information and comments on the basis that all data is non-attributable and have requested Z/Yen to take the following steps to ensure that confidentiality of results is maintained.

- Broker reports have been produced individually showing ranking data for all Brokers but with only one set of data identified, e.g., Brokers will see their own ranked data but will not be able to identify data belonging to other Brokers.
- Brokers can see individual rankings from Clients only where the Client has specifically agreed for this ranking information to be shared.

1.4 Report Contents and Structure

This report contains both graphs and comments. The graphs, accompanying narratives and other comments are based entirely on information provided by clients during the interviews.

The key sections are

2. Executive Summary

- Overall summary of the market and operations needs as viewed by the Clients.

3. Market Analysis

- Detailed responses to each question in the survey.

4. Clients Interviewed

- A list of Clients who participated in the survey

2 Executive Summary - Overall Summary of Findings

2.1 Background

59 clients were interviewed between September and November 2003. All clients interviewed were Investment Managers, many of whom have Pension/Insurers as end-Clients. 37 clients were based in the UK and 22 in Europe. All have a global focus of investment

This report is primarily focused on Equities and Fixed Income securities activity. A brief summary specifically relevant to Foreign Exchange and/or Money Market activity is included separately at the end of this section.

2.2 Key Messages

- Operational Performance continues to be an increasingly important factor in the choice of brokers, not only for execution of specific program trades (a small but growing proportion), but for general Equities and/or Fixed Income business.
- Broker's Operational Performance for **Fixed Income is generally perceived to be less efficient than for Equities**, despite clients typically expecting (and very often setting) the same standards.
- Clients require Electronic Trade Confirmations (ETC's) on trade dates for all products and from all global trading locations. Client Expectations on turnaround times for ETC's are becoming more aggressive (**typically 2 hours or less**).
- The **location of the client does not demonstrably impact** the service levels or criteria expected from brokers, although several European based clients prefer to have a local (broker) office to work with on both a day-to-day and exception basis.
- There is **negligible interest** in the use of Broker's Internet Systems for Securities activity. Clients much prefer information to be provided on a succinct email with relevant attachments.
- Clients are increasingly **building or updating in-house systems** to help them monitor Broker's Operational Performance, no longer relying solely on OMGEO or Custodian information to do this.
- The existence of **Service Level Agreements** (SLA's) between Brokers and clients is increasing, but clients generally prefer to build strong relationships, i.e., using SLA's 'only to resolve disputes'.
- The role of the CRM (Customer Relationship Management) is becoming increasingly important to clients, particularly as a single point of contact, an escalation point, as the 'Clients face at the Broker' and also as the provider of more detailed and frequent MIS.
- **Client knowledge** is key to a satisfactory relationship. Many Clients ranked brokers highly who took the time to understand the clients' business, systems and operational procedures.
- Brokers need more awareness of how **strategic decisions** at Client Organisations and the changing Operations environment (particularly with regard to insourcing and outsourcing) may impact the services required.

2.3 Core Transaction Management (Operations Best Practice)

Clients were asked to apply a weighting to 6 categories of Core Transaction Management (Operational Performance). The results were as follows:

	Equities	Fixed Income
Confirmation Timing	26%	25%
Confirmation Accuracy	27%	26%
Trade Matching Performance	17%	16%
Settlement Performance	17%	17%
Static Data Management	12%	6%
Interest Claim Management		9%

As can be seen, the key requirement is for quick and accurate turnaround of confirmations. With some (mainly non-UK) exceptions, these were all expected to be ETC on trade date, and within 2 hours. However, larger clients are increasingly looking toward a 1 hour window.

Clients were also asked for their "single most important" requirement from a broker's operations. Responses were:

- 1 Confirmation Timing and/or Accuracy.
- 2 Efficient maintenance of Static Data ("impacts everything else") and one broker acronym per broker and one per legal entity.
- 3 A good level of standard service all round (including: 'Consistently high service all round', 'Meeting our basis performance criteria', 'Do what they are paid to do', 'No one particular point - they are all important', 'Be straight with us' and 'Adherence to our SLA and adding value').
- 4 CRM - Single point of contact.
- 5 Good relationship and client knowledge.
- 6 Quick and accurate issue resolution.
- 7 Good usable management information (MIS).
- 8 Communication.

Maintenance of accurate and detailed Static Data is seen as a key factor and indeed as the basis for timely and accurate confirmations. ALERT was the key means of delivery and update. Brokers that continue to have multi-entity booking structures (which require multiple acronyms (and sometimes BIC codes)) create complex data requirements and, accordingly, are often ranked poorly.

2.4 Customer Management

Clients were asked to apply a weighting to 5 categories of Customer Management. The results were as follows:

	Equities	Fixed Income
Customer Service Management	40%	39%
Customer Relationship Management	26%	28%
Linguistic Skills	9%	8%
Product Knowledge	16%	15%
Regular MIS	10%	10%

Operational "transparency" is highly valued - but in general clients like to have access to CSM (Customer Service Management) teams. Service Level Agreements are increasing, but clients generally like to build a strong day-to-day (CSM) and CRM relationship, rather than rely on adherence to a formal document.

The CRM role at the Broker is an increasingly important one for clients - all of whom expect to be represented by a dedicated (single point of contact) CRM function (or at least a single point of contact at CSM level). Clients expect brokers to invest in high quality people for these roles, and to avoid constant rotation or change of personnel.

CRM's are expected to represent the client within their own organisation, and also to keep clients informed of changes, both at the broker and within the marketplace.

The key individual qualities of CRM's identified by clients are Communication, Accessibility, Responsiveness and Client, Market and Product Knowledge. Ineffectual CRM's are typified as those who "try to pull the wool over our eyes" or do not act with "honesty and integrity" - "We don't need to be unduly flattered".

Clients expect CSM's and CRM's to "know the client" and also to "know who's the client". Some clients observe that at some Brokers, the CRM functions is either only part of an individual's role, or that the CRM has too many clients to be effective - neither being acceptable.

Clients are also becoming more demanding of the CRM role with regard to provision of MIS, Performance Measurement and Peer Performance measurement. This reflect the increased investment in Operational Performance tracking at the clients.

CRM's need to be more open to and aware of the changing Operational world at clients. Many clients view positively CRMs who arrange "experience swaps" where operations staff at the client visit the broker to see how the process works and vice versa. This, together with support for testing initiatives, is seen as a sign of highly pro-active CRM which in turn has resulted in high rankings in our survey.

2.5 Linkage of Operational Performance to Business

Operational Performance continues to be an increasingly important factor in the choice of brokers, not only for execution of program trades, but for general Equities and/or Fixed Income business. Clients are increasingly developing more sophisticated means of tracking operational performance, based on detailed criteria. The best of these systems track data in real time.

Client Fund Managers and Traders are increasingly asking their operations for Broker operational performance measurement data and subjective reviews. In many cases, this information is being actively used for the determination of business, and/or to support the adherence to allocation levels (minimum or maximum).

2.6 Internet portals

As found last year, very few Clients will rate Brokers more highly if internet portals are offered for Securities. Most will only use them if the system is integral to the Clients' own workflow (e.g., an e-mail prompt with a hyper-link). Most Clients prefer periodic e-mail updates with comments. Clients believe that direct system access is useful at best, but generally time consuming with limited added value.

2.7 Top Clients/Overall Differential

In many cases, individual Broker "Top 20 Clients" results show higher rankings than the average of all 59 clients. This could indicate that service tier differentiation has been implemented and/or that "top Clients have higher expectations". There is generally a higher proportion of 'Excellent' or 'Good' rankings offered by Brokers' "Top 20 Clients" - reflecting the 'Platinum or Gold' status that many clients have been given.

On average Equity ratings tend to be slightly higher than for Fixed Income, with particular differentiation in the Core Transaction services ratings, possibly due to lack of automation.

2.8 Striking-off of Brokers

Operational performance can be a determining factor in deciding whether to either reduce trading (in certain sectors, or markets, or by volume) or totally suspend business with a particular broker. Most clients can recall a broker being "struck-off" within the last year to 18 months.

While clients acknowledge that it is difficult and time consuming to rebuild relationships and regain business levels following a suspension, they are willing to recommend it, in the face of continual and/or seriously poor operational performance. Thus, suspension is nearly always seen as a last resort, and while relatively rare, is still practised.

Several Clients have roles that are directly involved in monitoring operational performance trends and operate broker "watch lists" - often in conjunction with their Front office.

2.9 Strategic Direction - Initiatives Planned

Clients are increasingly focused on Operational efficiency and cost, and client service. At some clients, there is planned investment in new Operational and Relationship Management functions, dedicated to statistics, benchmarking and peer performance.

A few Clients mentioned that re-location of Operational functions by Brokers can have a major negative impact during transition, and often afterwards, which puts even more emphasis on the CRM function.

Additionally, Brokers need to understand how strategic decisions at Client Organisations and the changing Operations environment (particularly with regard to insourcing and outsourcing) may impact the services required. Several clients observed that Tri-Partite relationships are increasing, and that SLA's and MIS need to take this into consideration.

2.10 Next Steps

Z/Yen will arrange 1-1 feedback sessions with each of the sponsoring Brokers.

The Asset Managers (Clients), who participated in the survey, will be sent a summary copy of the report and also be invited to attend a workshop/presentation of findings. We will also invite a representative from each Broker to this meeting.

This survey will be repeated in Autumn 2004.

In addition, we believe that there are a number of further areas where research would prove invaluable to both the Brokers and their Clients. These include:

- a survey of back-office outsourcing companies focusing on services offered and quality;
- a survey of Asset Management (Client) Operational Performance, as measured by Brokers;
- additional focus on Broker Operational Performance for Prime Brokerage, OTC Derivatives and Futures and Options.

2.11 Treasury (Foreign Exchange / Money Market)

It was anticipated during the establishment of this survey, that FX/MM would typically involve a differing client base to that of Equities and Fixed Income, and that client needs would differ given the nature of the product.

During the survey, this was indeed found to be the case. While the functional managers of several clients also had FX/MM within their domain, only around 20% of those interviewed were able to supply broker rankings. Of those, not all were able to rank all participating brokers, and not for all criteria. However, of those that were able to respond for FX/MM, clients generally expressed the same service level expectations, and acknowledged that many of the criteria we included for ranking were indeed relevant.

At the time of writing, Z/Yen is in discussion with several banks on the establishment of a specific survey into the Treasury market. This is planned to start in January 2004 and cover Asset Managers, Hedge Funds and Corporates.

3. Market Analysis

A. Market Structure

1. Interviewees

In Total Z/Yen interviewed 59 clients based in 10 different countries. The interviewees were typically Senior Operations Managers, Product Specific Operations Managers (i.e. Equity or Fixed Income), or, in some cases, specific Broker Liaison Managers.

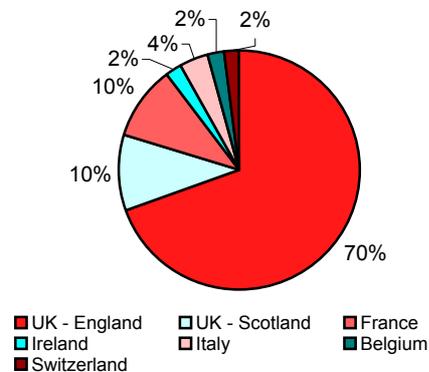
2. Organisation

All clients interviewed were Asset or Investment Management companies, several of which had Pension/Insurers as end-clients. All had a Global focus and 66% had over US\$50BN of Assets under Management.

3. Location

The majority of clients (37) were based in the UK - predominantly London though 6 in Scotland. Of the remainder, 4 were based in Italy, 5 in France, 4 in Germany, 2 in Holland, 2 in Belgium, 2 in Switzerland, 1 in Norway, 1 in Spain and 1 in Ireland. There is increasing focus on outsourcing, and we interviewed 5 clients that had outsourced all or part of their Operations.

Location of Clients Interviewed



4. Product Coverage

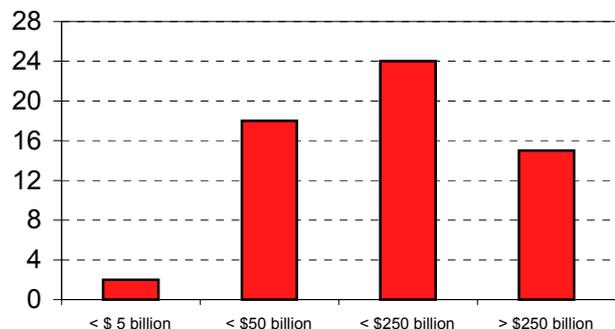
The survey covered Equities, Fixed Income and Foreign Exchange/Money Markets (FX/MM). The clients/individuals interviewed all covered Equities and most also covered Fixed Income. At many clients, FX/MM was managed in a different area, and/or the brokers used were not taking part in the survey. This was reflected by a lower incidence of coverage, and subsequent omission from the ranking section of this report.

5. Assets Under Management

a) Overall Assets Under Management

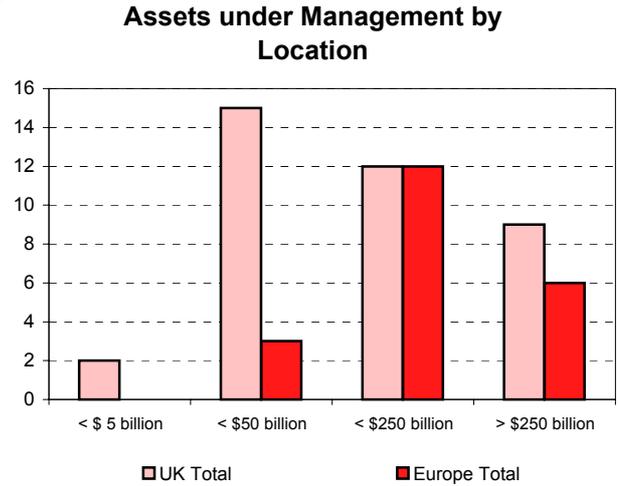
The majority of the most influential clients were included in the survey, with 66% of those interviewed having assets under management of over US\$100BN, with 20% having over US\$250BN. Overall Assets under management varied widely with a fairly even spread across three of the bandings.

Clients' Assets under Management



b) Assets under Management by Location

Although there was a spread of assets under management, all European clients had assets under management of greater than \$50 billion.



3. Market Analysis

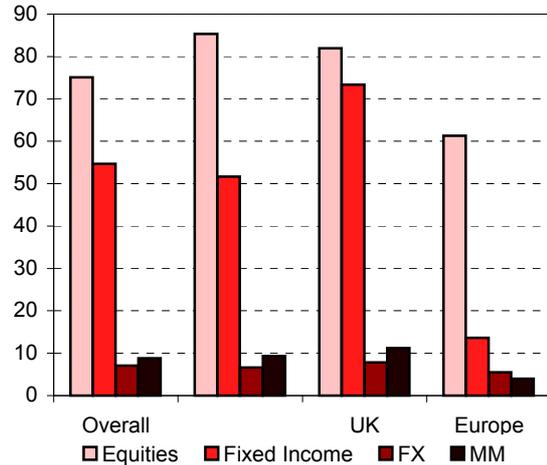
B. Broker Selection

1. How many Brokers do you use and how many do you formally rank ?

a) Number of Brokers Used

The number of brokers used ranges from a low of 10 to a high of over 300, indicating the diversity of clients interviewed. Many clients, particularly the largest (in terms of assets under management), use over 80 brokers. All however tend to channel the majority of their business (usually between 60-80%), through a list of 'top-tier' brokers, which usually comprises 10-20 firms. Nearly all clients use a smaller number of those same brokers for Program trades - usually between 5 and 10. The number of brokers used for FX/MM is generally significantly lower than for securities.

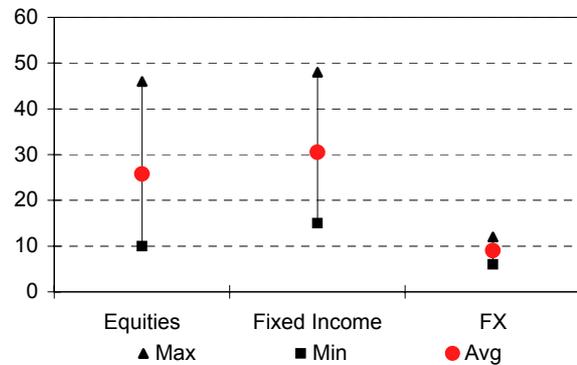
Number of Brokers Used by Product



b) Number of Brokers Formally Ranked

The graph opposite shows the range of numbers of brokers ranked by Clients that DO undertake formal ranking. (Less than a quarter of clients interviewed formally rank some or all of their brokers).

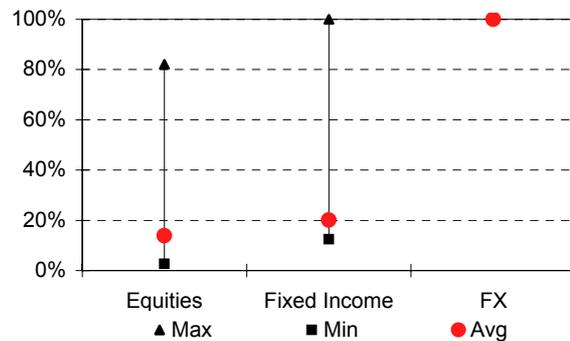
Number of Brokers Ranked



c) Percentage of Brokers Ranked

Where clients DO perform a formal ranking process, about 1 in 6 brokers are ranked for Equities and about 1 in 5 are ranked for Fixed Income.

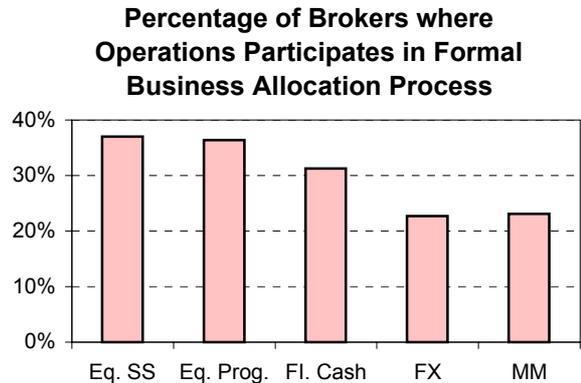
Percentage of Brokers Ranked



2. Do you have a formal business allocation process in which Operations participates?

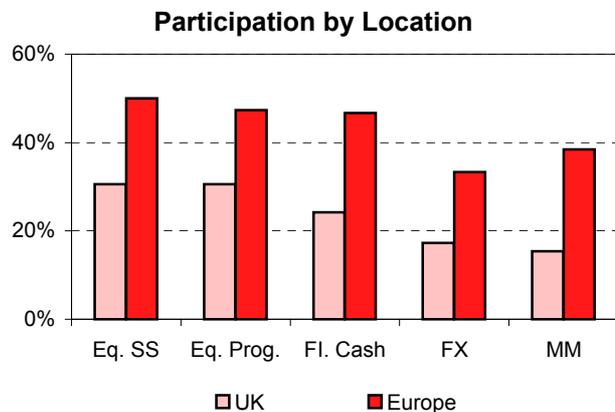
a) By Product

Clients' Operations/Settlements areas are increasingly asked to formally participate in a business allocation processes. For Equities, approximately 35% of those interviewed do have a formal process in which Operations participates. For other products, the proportion is less.



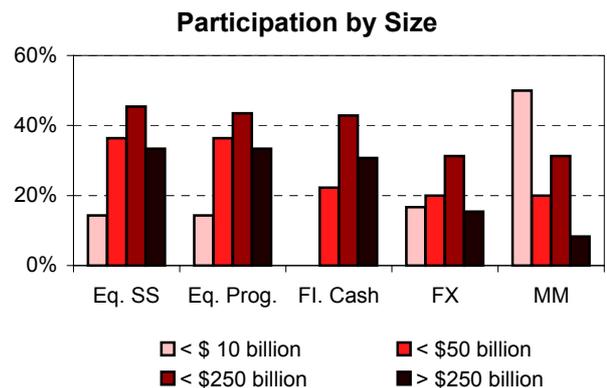
b) By Client Location

European clients are more likely to have a formal business allocation process in which Operations participates than those in the UK.



c) By Size (Assets under Management)

Size is also a differentiating factor though. Small clients, i.e., those with under \$10Bn in assets under management are unlikely to have a formal process. Of the larger clients, approx. 40% had a formal process in which Operations participated.



3. How does this business allocation process work?

Where there is a formal process, it typically occurs every six months or annually, although some clients conduct the process monthly, or even monitor in real-time. This process takes several forms, including:

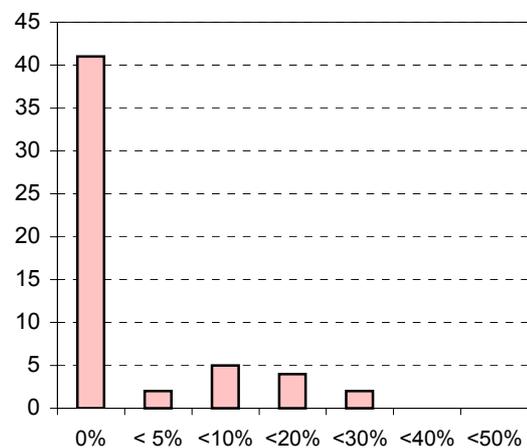
- . Broker Selection or Review Committees/Boards - which may include Fund Managers, Traders, Risk Managers, Credit Exposure and Compliance, as well as Operations.
- . Meetings with Traders and/or Fund Managers (some traders also send questionnaires for Operations to complete).
- . Regular (or even real time) performance updates into an automated Relationship Monitoring system.

4. What percentage of the "broker vote" is given to Operational Performance?

12 clients reported a formal process with a percentage of the broker vote attributable to Operations. For Equities, this percentage ranged between 1.5% and 25% with an average of 13% - slightly down from last year's survey where the average was 14%. For Fixed Income, 8 clients reported a percentage with an average of 14%.

In some cases, the actual percentage was unknown or variable, depending on current levels of business and varying degrees of automation of the process. Additionally, some clients were planning to introduce a formal percentage over the current year when a better performance monitoring system has been implemented.

Percentage of Broker Vote allocated to Operational Performance



5. How do Operations prepare for their participation in this allocation process?

a) Single Stock Trading

Where a formal allocation process exists, Operations preparation usually takes one (or more) of the following forms:

- . Review of internal monitoring data is the most common - and many clients have sophisticated mechanisms for this, capturing data on Confirmations, Trade Allocations, ETC/STP, Rejections and Repairs, Settlements, Fails, Interest Claims and CSM and CRM relationships.
- . Internal meetings and relationship review between various Operations groups (often split either by function and/or product).
- . Review of volumes - a few clients are obliged to restrict or maintain trading levels with certain brokers.

b) Program Trading

In general, clients did not make any differentiation between Single Stock and Program trading when it came to Broker Vote. Indeed, a few Operations areas could not distinguish between the two types of trades, understanding that this can cause brokers some problems. At most clients however, Operations were often consulted with regard to their preference for brokers to execute certain Program Trades. Criteria here often included:

- . Technical ability (STP/ETC).
- . Market coverage.
- . Regional coverage
- . Best execution

6. If there is no formal process, how do you decide on business allocation?

In the absence of a business allocation process in which Operations participates, the typical drivers were the traditional Front Office criteria of Pricing, Execution, Commissions and Research. However, there were some more surprising elements, such as:

- . Client driven usage of certain brokers (Directed Business)
- . Group limitations on counterparty exposure (Allocation Ratios).
- . Maintenance of business levels (either with certain brokers, or within the parent group of companies).
- . Regulatory restrictions (FSA or SEC)

7. If there is no formal process, how do you relay feedback on operational performance?

Without the formal allocations process, most Operations groups still provide feedback on broker performance to their front office, either by periodical meetings, subjective ratings, or in response to Ad-hoc (usually pre-broker meeting) requests from traders or fund managers. At smaller clients, where Operations groups sit close to the Traders, broker performance issues are very transparent.

Externally, operational performance feedback is commonly reserved for broker review meetings, although many clients pointed out that major operational issues usually get addressed by specific calls and/or meetings, which clients typically arrange.

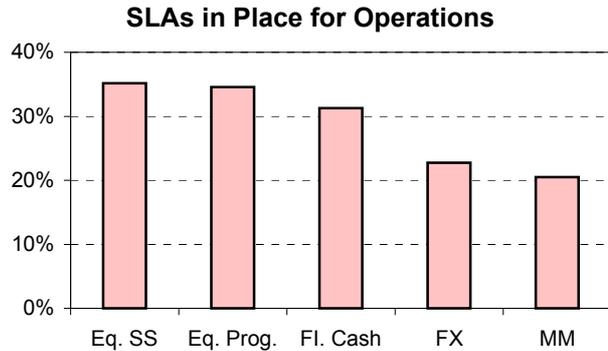
3. Market Analysis

C. Core Transaction Management

1. Do you have Service Level Agreements (SLAs) in place with your brokers to define Operational best practice and performance?

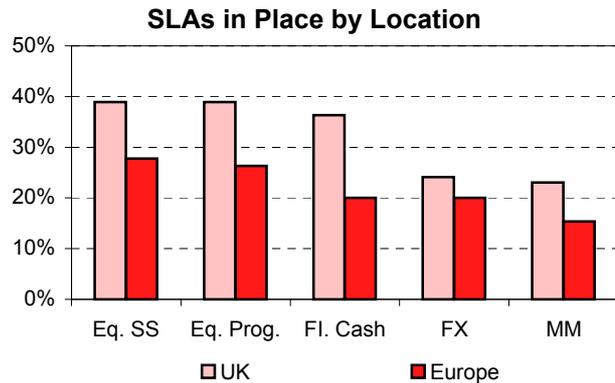
a) By Product

Many clients have SLA's with brokers (especially Top-Tier), but many see the SLA more as 'terms of business' that can often "get in the way of the relationship". Most share the sentiments that relationships are better than formal documents - and these only need to be referred to in times of dispute.



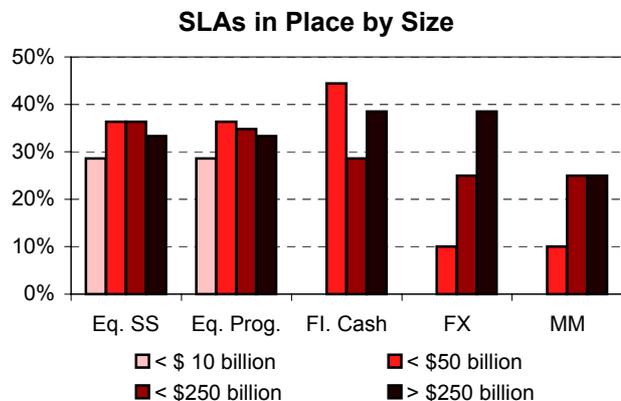
b) By Client Location

The existence of (and adherence to) SLAs is much more prevalent in the UK than with European Clients.



c) By Size (Assets under Management)

Clients expect that basic service levels should be standard and for equities, SLA usage is fairly evenly spread over different client sizes (in terms of assets under management). However, for FX/MM, it is mainly the larger clients that have SLAs.

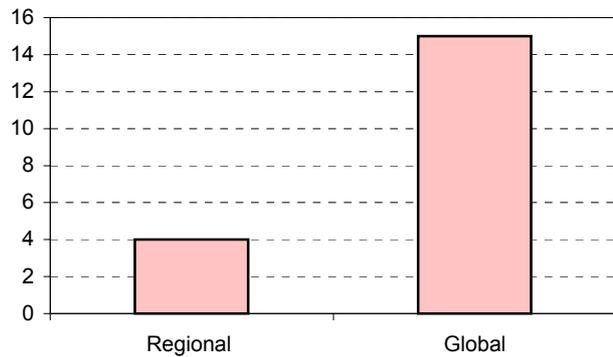


2. Are the SLAs Regional or Global?

Where SLA's exist, they predominantly cover the global relationship between broker and client. The majority of SLA's also cover both Equity and Fixed Income, but fewer include FX/MM. This again supports the trend toward standard service requirements regardless of product or location.

Many clients observe generally poorer performance in Fixed Income (versus Equity), but actually expect the same levels of service. In one particular case, a client has specifically set the same levels with the objective of increasing broker operational performance for Fixed Income.

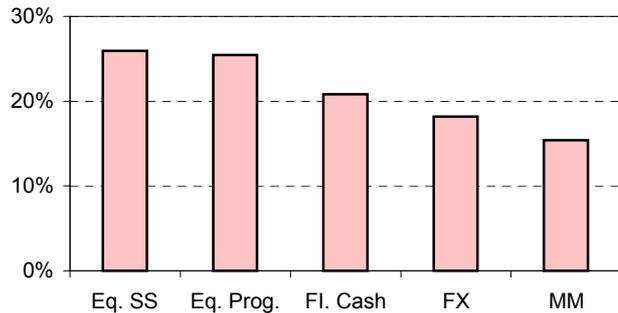
SLAs - Regional or Global



3. Do you measure performance against these SLAs?

Clients' key focus is on confirmation timing, where the most aggressive benchmark was to receive a confirmation within 1 hour of execution. The majority of clients tend to use a 2 hour benchmark, and some (typically smaller) find within 24 hours acceptable. There was frequent reference to the ISITC Code of Practice. Some clients have thresholds for late items, which if exceeded, warrant relationship reviews.

Percentage that Measure Performance against SLAs



4. What tracking methodology do you employ?

Clients track performance by:

- . Statistical measurement of confirmations, allocations, settlement and fail rates - often automated.
- . Subjective internal reviews.
- . Use of OMGEO benchmarks - although many find this cost-prohibitive and/or inaccurate.

Several clients are planning more sophisticated tracking systems for 2004.

5. If yes, what actions do you take if standards are not met?

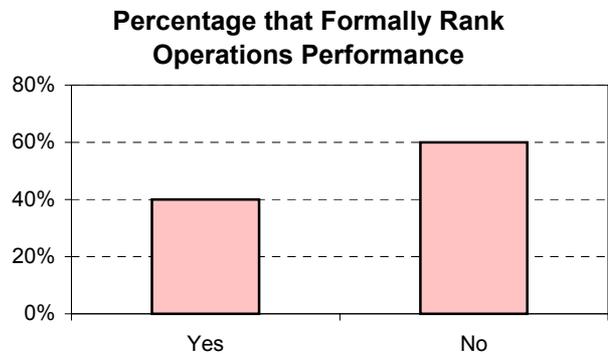
Clients prefer to raise and resolve issues as they occur, rather than wait for relationship review meetings. This is typically done by escalation to the CRM, but, particularly among the smaller clients, escalation between Front Offices is common practice. Several clients maintain issue logs, or even have specific roles for interaction with either brokers or traders.

6. If no SLAs are in place, how do you express your expectations to brokers?

In the absence of SLA performance measurement, clients will typically set out their service requirements at an inaugural meeting, and then on an ongoing basis to their CRM (ad-hoc or at review meetings). SLA's in general are an emotive subject. Interestingly, several clients that do not yet have SLA's are taking strides to introduce them, conversely, several of those clients that do have SLA's, place a far greater emphasis on the day to day relationship.

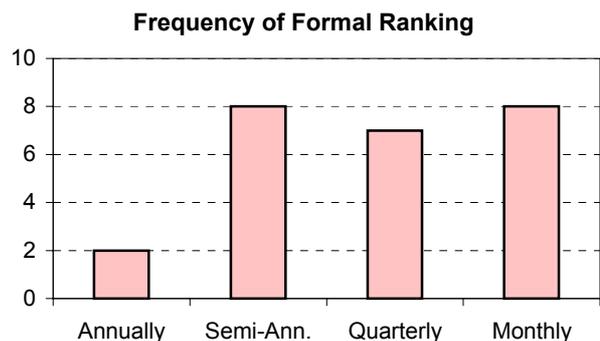
7. Do you use a formal broker ranking system?

Although many clients have given subjective rankings of broker operational performance, formal broker ranking based on system metrics is carried out by less than 50% of the clients. However, this should increase over the next 12 months, as clients' Operations areas are looking not only to justify their input to the broker vote, but also to more closely monitor their top tier brokers.

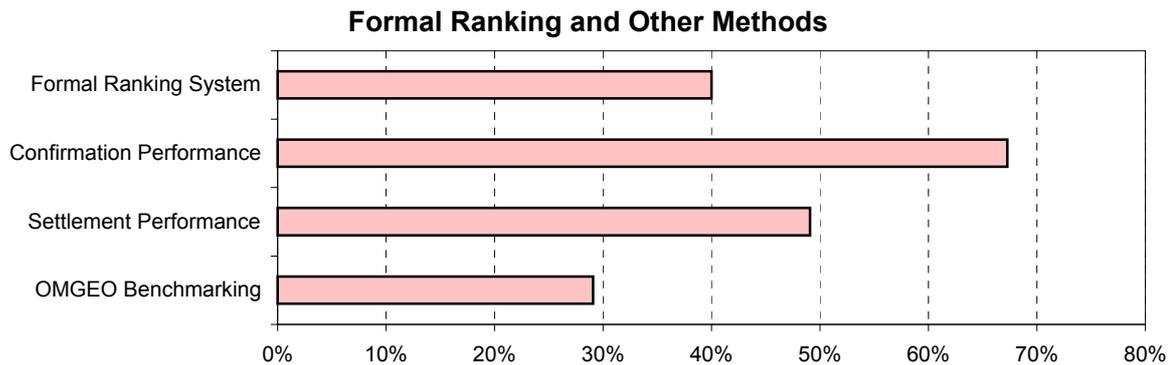


8. How frequently do you "rank" your brokers' operational performance?

Brokers can expect to be formally ranked at least annually, but many clients have developed systems that can evaluate brokers on a more frequent basis - some even monthly.



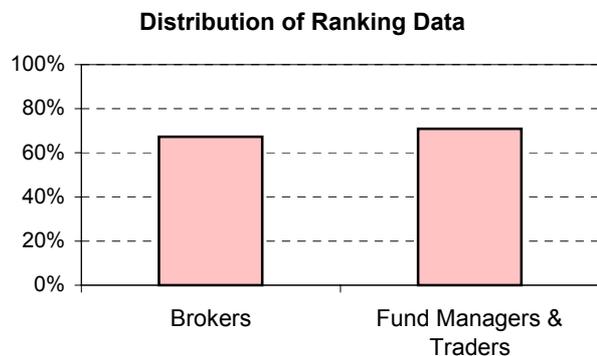
9. How do you "rank" your brokers' operational performance?



Confirmation timing (usually within 2 hours of execution - although the window is becoming narrower) is the critically recurring ranking area and is tracked by many brokers who do not have formal ranking systems. Many clients have developed their own in-house (often sophisticated) ranking tools. Less, however use OMGEO benchmarking, as it is generally viewed as cost-prohibitive and inaccurate (particularly re: timezones etc). Several clients have specific roles set up to monitor broker performance, and several reconcile relative information versus that received from their Custodians.

10. To whom do you distribute broker ranking information?

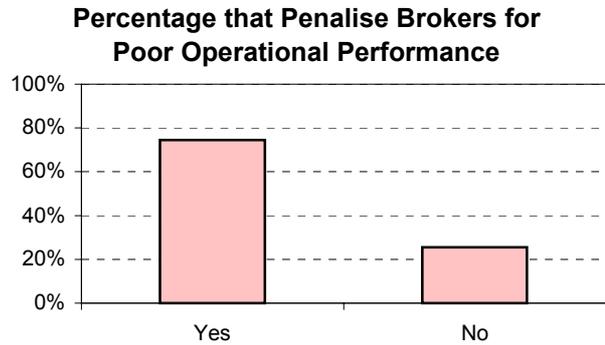
Of those that do rank, nearly all clients distribute the information to their front office - either for periodical reviews, or for adhoc requests. Larger numbers of clients are also raising the broker rankings at review meetings - often sharing scores and league positions with brokers.



11. How do you use broker ranking information?

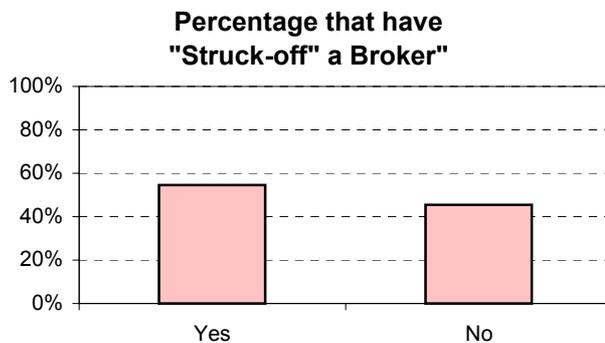
a) Penalise broker for poor performance

Most clients are prepared to penalise brokers for poor operational performance. This usually takes the form of reduced or suspended trading - either in certain sectors or products, or across the board. Suspension of trading is not just reserved for smaller brokers either - several clients have suspended major brokers within the last 18 months.



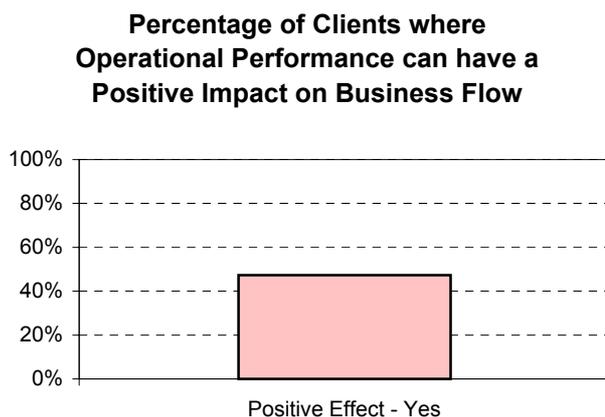
b) Brokers struck off for poor performance

Suspensions have ranged from a low of one week to a high of one year. Most clients see this as a last resort however, and as such suspensions are rarely seen more than once a year.



12. If operational performance targets are exceeded, does this positively affect business flow?

Most clients believe that Operational performance can positively affect business flow, but acknowledge that (typically) the decision lies with the Front Office. A positive impact is more prevalent for Program Trading or major/complex trades, e.g., restructures, where the Front Office will often ask for broker recommendations in advance of order placing.



3. Market Analysis

D. Customer Management

For the purposes of this survey, the participating brokers have agreed the following

Customer Service Management (CSM): The day-to-day handling of the account. Typically: An individual or team who is/are the first point of contact for issues or data enquiries.

Customer Relationship Management (CRM): The management of the account. Typically: An individual responsible for the overall operational relationship (including single point of contact for escalation, broker review meetings, new operations/process implementation etc.)

1. What are your expectations from a broker's operations group regarding CSM and CRM?

a) Customer Service Management (CSM)

For CSM, Clients have stressed that availability, pro-activeness, product knowledge and quick response to enquiries are the key expectations of the CSM function. Often however, more personal traits have been identified, such as politeness and respect - which is not always evident. Size often makes a difference - smaller clients prefer transparency. In addition, some non-UK clients expressed concern that the hours of coverage did not match those on the continent.

b) Customer Relationship Management (CRM)

For CRM, Clients stressed that single point of contact, point of escalation, issue ownership and resolution are key expectations of the CRM function. Communication of change is also important to clients, as is detailed and consistent MIS. Clients want CRMs to know their business, (particularly their history - especially for non-UK clients) and have authority within their own operation, but don't want 'schmooze' to take the place of efficiency.

2. How does the CSM/CRM add significant value to a broker's operations

a) Customer Service Management (CSM)

Quick actions and reactions to failed trades and 'beating the 2-hour window' for confirmations are often seen as a basic service requirements, yet really add value if consistently good. Several Non-UK clients remarked that local office CSM/CRM often add real value for them as a way of "seeing through the jungle". Clients like CSM teams that 'go the extra step', and/or generally make them feel special, by instilling confidence. Several clients told us that they were rated as "Platinum" by a particular broker(s) and how this made them feel appreciated.

b) Customer Relationship Management (CRM)

CRM's add value by being communicative - not only about issues, but by keeping clients abreast of market changes, changes at the broker (be 'self-policing') and also by setting up relevant reviews. Those that stand out offer high quality, detailed and consistent MIS, are pro-active when dealing with client issues ("they were really helpful to us in supporting our system testing") and are also seen to represent the client within their own organisations. CRM's can really influence the relationship but should not be apologists for their organisation ("he tried to pull the wool over our eyes").

3. What do you believe will be your future requirements of the CSM/CRM

a) Customer Service Management (CSM)

More of the same' is a very common theme, underlining the need to offer a high quality generic service, without the need for 'bells and whistles'. There were several calls for greater ETC/STP and/or quicker resolution of issues and closer adherence to Codes of Practice.

b) Customer Relationship Management (CRM)

For CRM, many clients also want 'more of the same'. In addition, there is an anticipated demand for more updates on market and broker initiatives. As the structure of Clients' organisations change, many would like to see a single point of contact (Globally) for CRM.

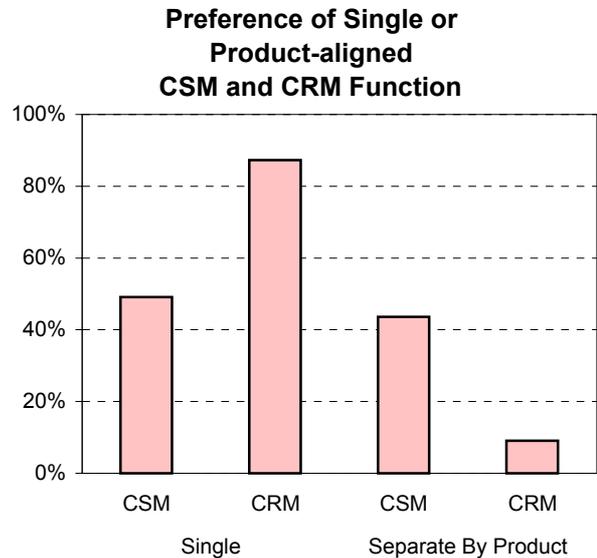
c) What makes a good CSM and CRM ?

The overall perception from clients was that CSM should really be transparent, but available and efficient when issues arise. CRM's should be the 'face of the client' at the broker, be able to manage escalated issues to resolution and work with the client on developing new (useful) systems and processes.

4. Would you prefer a single CSM/CRM function covering the whole relationship, or separate functions by product?

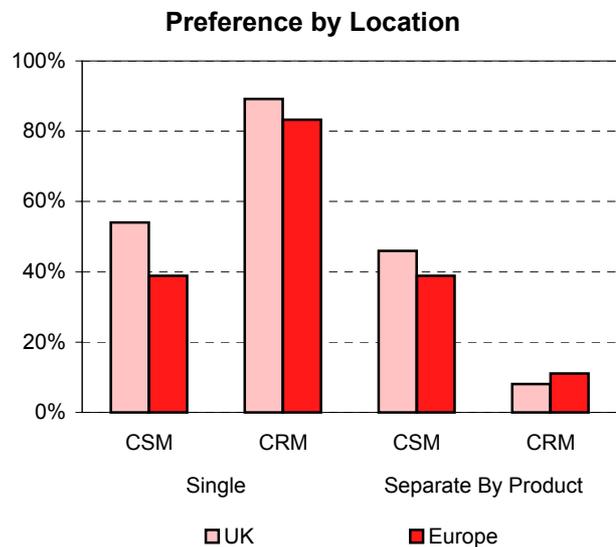
a) Overall - Percentage of respondents preferring a single function.

The vast majority of clients (90%) prefer a single CRM covering all products. While a single CRM for Equities and Fixed Income is seen as key, many clients would also like to have the same CRM for FX/MM too. For CSM however, the picture is mixed with relatively equal numbers of clients opting for either a single or separate functions. Typically, this desire mirrors the structure of the clients' own operation. In some cases however, such 'mirroring' lead to all possible combinations of CRM/CSM (single point of contact or overall coverage). Outsourcing of back office functions often means that CSM contacts are not seen by the clients themselves.



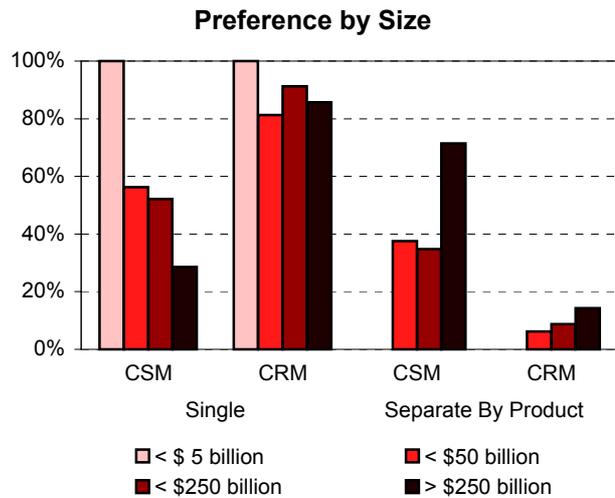
b) By Client Location - Percentage of respondents preferring a single function.

Differing preferences are not driven so much by location, but by a reflection of the client's structure. Non-UK clients however place more emphasis on having a locally based CSM and/or CRM function.



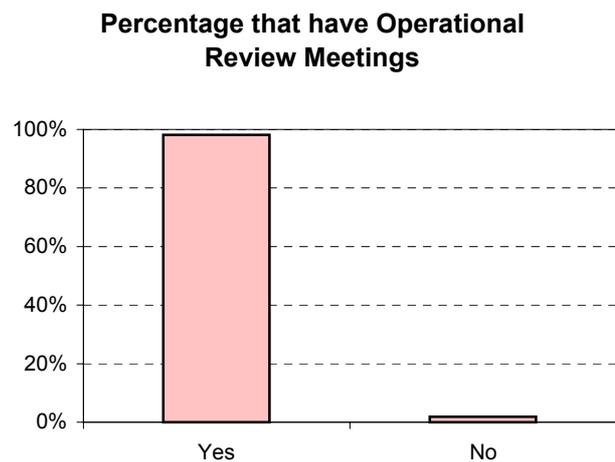
c) By Size - Percentage of respondents preferring a single function.

At smaller clients, where the same team or person looks after all products, there was a greater desire for a single CSM function. Additionally, some smaller clients pointed out that their size did not warrant a dedicated CRM, and that they just want a single point of contact for CSM. Large clients typically expected a single function CRM, but CSM response was more varied (typically mirroring the client structure was the preference). This indicates that a degree of flexibility is needed at the broker to deal with the individual preferences of key clients.



5. Do you currently have operational review meetings with your brokers?

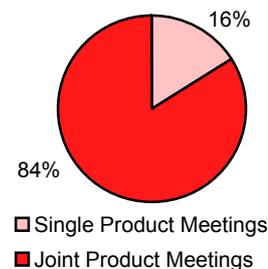
The vast majority of clients hold broker review meetings, and see a value in these. Generally the level of seniority of those attending was Operations Manager/Team Leader at the client, and CRM level, with some CSM attendance from the broker. Interestingly, many clients felt that they only saw senior management at the broker when there was a problem. Many clients also observed that Technicians, Operations Specialists and Front Office attendees (on both sides) added value when addressing specific issues or development plans.



6. Are these single or joint product meetings?

Clients clearly prefer to hold joint-product meetings at least for Equities and Fixed Income, although FX/MM is often seen as a significantly different product, with the individuals concerned (often on both sides) differing from those who manage Equities and/or Fixed Income.

Coverage of Operational Review Meetings

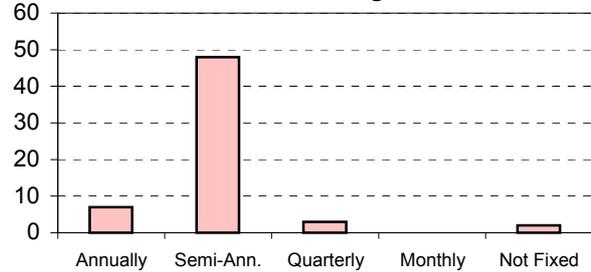


7. How often would you expect to have operational review meetings with your brokers' operations groups?

a) Overall

While the majority of clients meet semi-annually with the brokers, many indicated that they do not like to have 'meetings for meetings sake' - and would be happy with a courtesy telephone call where no issues exist. Clients are however very unhappy when promises are not met, e.g., "I'll get back to you", and when meetings are continually cancelled.

Frequency of Operational Review Meetings

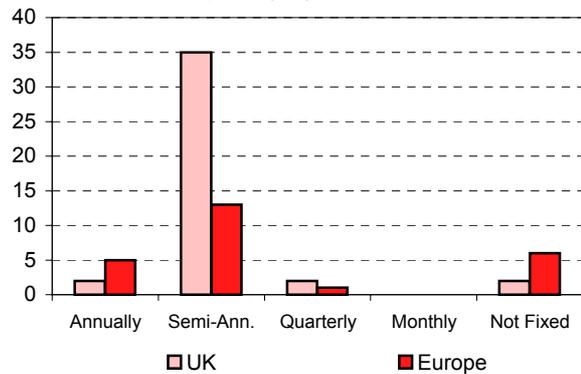


b) By Client Location

The preferred frequency of meetings is (perhaps surprisingly) not driven by location. Several non-London based clients however observed that they either:

- a) Did not see brokers as much as they would like to, or
- b) Received visits from brokers when not really necessary - as if visits to their locale were simply being justified by the brokers.

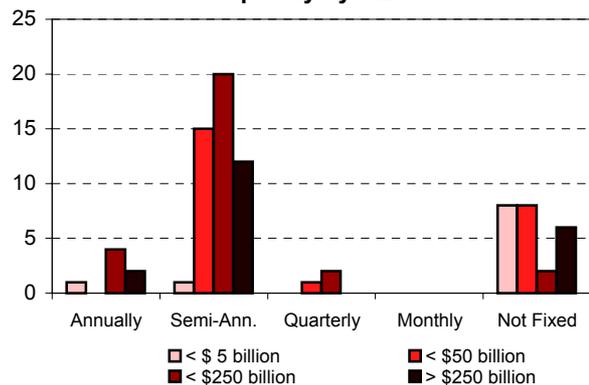
Frequency by Location



c) By Size

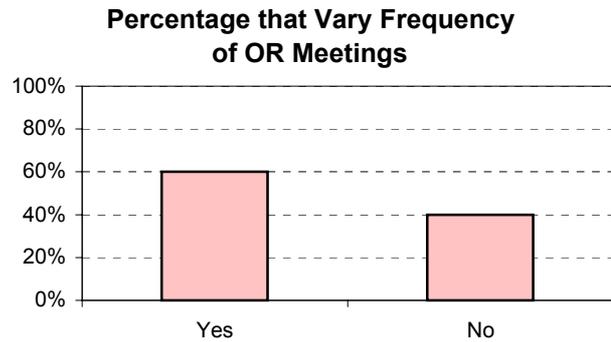
Larger clients expect to see brokers regularly. Most suggest semi-annual or annual meetings. Some clients like to hold review meetings with their top 10 brokers at set times of the year. Smaller clients, while realistic and not expecting regular semi-annual, would also like courtesy calls as a minimum.

Frequency by Size



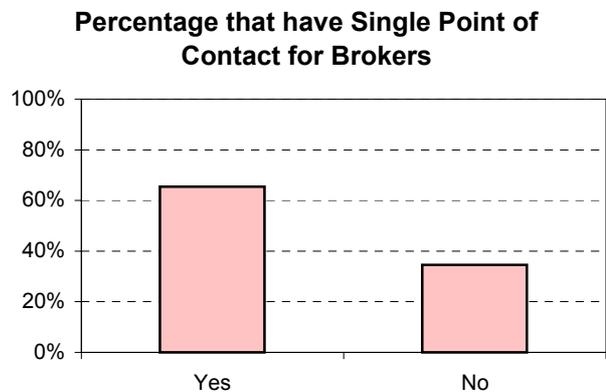
8. Does the frequency of meetings vary depending on your internal ranking of broker relationships?

Clients make distinctions by trade volume, expecting to see their top brokers on a regular basis. Many never (or rarely) speak to low volume brokers, unless issues arise. Nearly all clients interviewed though would expect to arrange adhoc meetings to address specific Operational Performance concerns.



9. Do you have a single point of contact for brokers in your organisation?

Clients often answered 'yes', but with the caveat that brokers also have direct access to clients' day-to-day specialists. In many cases, however, the single point of contact was just the Client Operations Manager(s) though there few a few clients who had appointed 'Broker Liaison Officers'. Smaller clients were more likely to have a single point of contact, especially for their lower volume brokers.



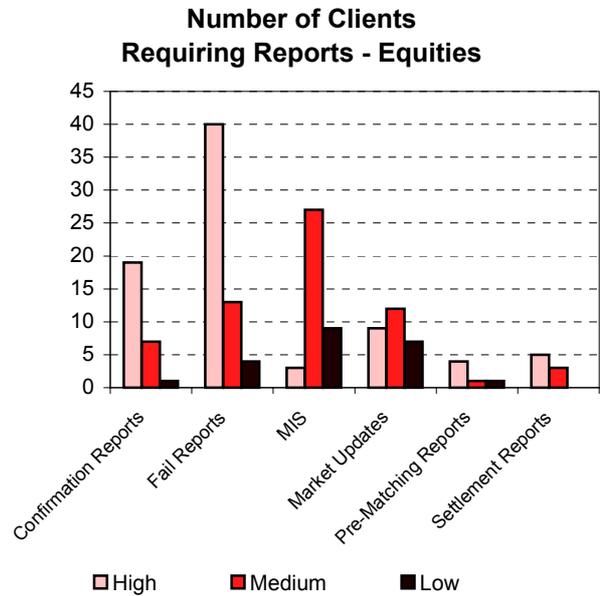
3. Market Analysis

E. Future Plans

1. What are your reporting requirements from your brokers?

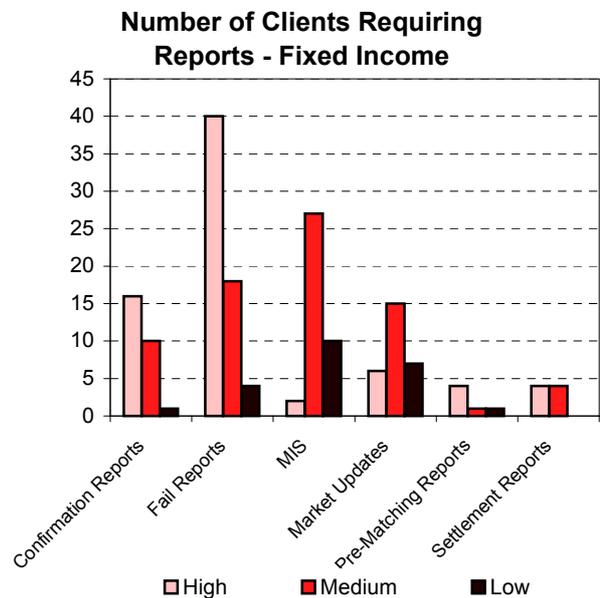
a) Equities

Fail and Confirmation reporting are seen as key requirements by many clients, although several observe that Confirmations are (or should be) managed and reported via OMGEO. MIS is increasingly required but is of a lower priority.



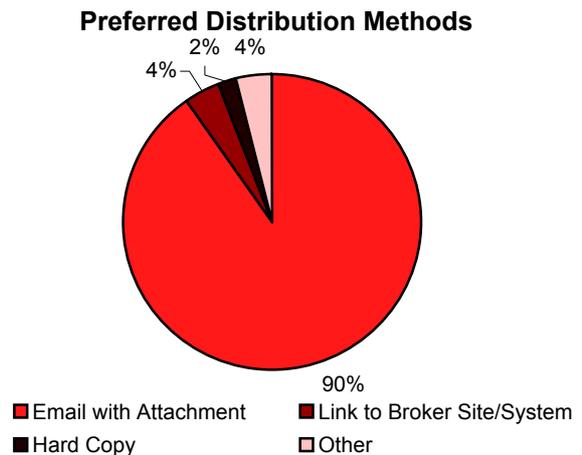
b) Fixed Income

A very similar pattern is displayed for Fixed Income products. However, there are fewer instances of MIS and Market Update reports being a high priority.



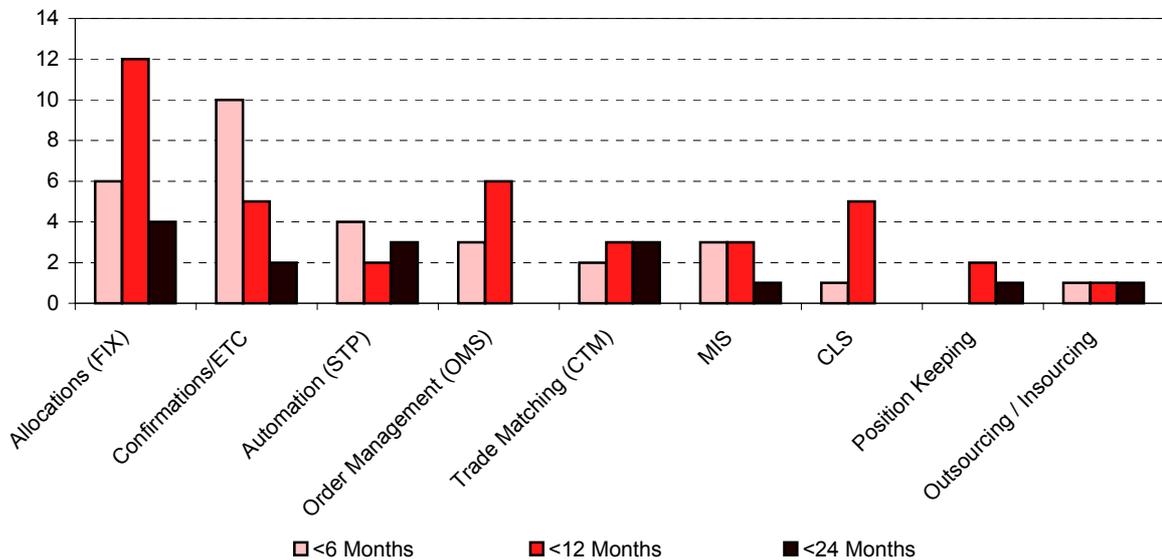
2. How do you prefer to receive these reports?

Email receipt is by far the most popular method, and within that, emails with attachments, rather than links to Intranet sites. A significant majority of clients are vocal about not wanting access to "a proliferation" of websites", despite some good models being available, e.g., DRKW. This is mostly because clients have too many broker relationships to be able to continually access websites. A recurring theme on 'best practice' is to receive one email per day, from each broker, listing the issues or items that need addressing (even if nil return). A number of clients suggested a further (industry-wide) centralisation into one single portal or a single email per day, as the ideal.



3. What future plans should your brokers be anticipating, and in what timescales?

Future Plans of Asset Management Firms (Clients)



A wide variety of future plans were reported by clients with primary focus on enhancing the confirmation and allocation process (particularly FIX). Confirmations were also a focus for FX processing staff. Many clients place emphasis on in-house developments, particularly with regard to performance benchmarking and MIS, where some were moving away from OMGEO. With regard to market developments, less automated clients are aware of coming changes, but are often constrained by forces outside their control.

4. Which vendors are you using or are likely to use?

Many clients have invested tactically in front, middle and back office technology over the last year to 18 months, While there are number of developmental plans, there does not seem to be a major drive toward any one process, system or vendor. Many clients are adopting a wait-and-see strategy and/or are being restricted by cost implications.

5. What factors will affect your decisions on future plans and have your priorities

Cost was the overriding factor, although many clients referred to (related) areas such as resource availability, technology and organic growth (or decline). Market take up, e.g., "wait and see", is also an important factor.

6. What other plans do you have which will impact the support services you require from your brokers?

Insourcing and/or Outsourcing are on most large clients' agendas, in one form or another - and several interviews highlighted the fact that brokers should become increasingly familiar with the tri-partite relationship that these processes foster. New business and structural change or mergers are also increasing - many clients are experiencing greater consolidation and/or globalisation within their (and their clients') worlds.

7. What is the single most important point you would like to raise with your brokers, in terms of service provision?

1. Confirmation Timing and/or accuracy was the single most recurring item. Others, with varying degrees of passion, included:
2. Efficient maintenance of Static Data ("which impacts everything else") and one broker acronym per broker and one per legal entity..
3. A good standard service all round (including: 'Consistently high service all round', 'Meeting our basis performance criteria', 'Do what they are paid to do', 'No one particular point - they are all important', 'Be straight with us' and 'Adherence to our SLA and adding value'.
4. CRM: Single point of contact.
5. Good Relationship (CSM and/or CRM - "know your client")
6. Quick and accurate issue resolution.
7. Better Management Information.
8. Communication - "They all fall down in one way or another"

4. List of Participating Clients

Clients Interviewed

- Morley Fund Management
- Schroder Investment Management Limited
- JP Morgan Fleming Asset Management
- Merrill Lynch Asset Management
- Goldman Sachs Asset Management
- Henderson Global Investors Limited
- Morgan Stanley Investment Management
- CDC IXIS Asset Management
- Credit Agricole Asset Management, Paris
- Allianz Investment Management, Frankfurt
- Threadneedle Asset Management
- Deutsche Asset Management UK
- Nextra Investment Management, Milan
- F & C Management
- Scottish Widows Investment Partnership
- UBS Global Asset Management (UK) Ltd
- DEKA Investment , Frankfurt
- Credit Suisse Asset Management (Switzerland)
- ING Investment Management, Netherlands
- ISIS Asset Management
- M & G Investment Management
- Deutsche Asset Management Investment,
- INVESCO (AMVESCAP)
- AXA Investment Managers, France
- Credit Lyonnais Asset Management
- Robeco Asset Management, Netherlands
- BNP Paribas Asset Management, France
- Legal and General Investment Management
- Insight Investment Management Limited
- DWS Investments
- HSBC Asset Management
- Alliance Capital Management Limited
- Banco Santander Central Hispano
- Credit Suisse Asset Management
- Blackrock International Limited
- Citigroup Asset Management
- Fortis Investment Management, Brussels
- Monte Paschi Asset Management SGR. Milan, Italy
- Aegon Asset Management
- Baring Asset Management
- Baillie Gifford & Co.
- Newton Investment Management
- Pioneer Investment Management, Turin, Italy
- State Street Global Advisors Ltd
- Abbey National Asset Management, Glasgow
- GLG Partners LP
- Norges
- Dexia Asset Management, Brussels
- Hermes Investment Management
- TT Int. Investment Management
- Bank of Ireland Security Services
- Capital International Geneva
- Royal London Asset Management
- Britannic Asset Management
- Martin Currie Investment Management Limited
- ABN AMRO Asset Management
- Edinburgh Fund Managers, Plc
- Nomura Asset Management
- Euromobiliare AM

5. Z/Yen Limited

Z/Yen is the UK's leading risk/reward management consultancy.

Risk/reward management is the application of risk analysis and return incentives to strategic, systems, human and organizational problems in order to improve performance. Z/Yen believes that the intelligent management of risk is the basis of significant reward. By recognizing, understanding and managing risks, more risks can be assumed and performance increased.

Z/Yen applies risk/reward management in the public, private and not-for-profit sectors, with particular expertise in:

- Financial Services
- Technology
- Not-for-Profit Sector
- Professional Services
- Business Intelligence

Within Financial Services Z/Yen performs benchmarking and performance analysis, market surveys, strategic planning (outsourcing, re-engineering, relocation) and market intelligence. Z/Yen's benchmarking surveys encompass European securities, US securities, Global Treasury products and Global OTC Derivatives.

Z/Yen's work has enabled banks and other financial institutions to:

- Understand whether economies of scale efficiencies have been realized;
Identify in which products or businesses they are either efficient or inefficient
- processors;
Identify where in the trade processing lifecycle they have scope for improvement;
-
- Identify and quantify "best of breed" and determine efficiency targets;
- Analyze progress and trends on a year-on-year basis;
- Monitor relative performance for management.

For more information on Z/Yen, visit our website www.zyen.com or call Jeremy Smith on +44 (0)20 7562 9562.