Kathy Freeman Company

Executive Search for Financial Services

Fourth Annual Executive Survey

Attracting and Retaining Human Capital:
Are You Ready to Compete?

White Paper
February 2013

2013 Executive Survey

Reversal in Job Satisfaction Demands More Aggressive Hiring Strategy to Attract Top Executive Talent

Equity and Growth Opportunities Are Best Way to Lure Executives

Executive Summary

Top executives in investment management and wealth management are more satisfied than they have been since the beginning of the financial crisis. In just four years, senior sales and marketing executives have gone from being mostly dissatisfied to being mostly satisfied with their current position. To attract talent, firms will need to offer equity more frequently and act more decisively than they have in the recent past when a compelling candidate has been identified. To retain talent, firms will need to link compensation more closely to performance and create opportunities for executives to develop new ideas, products and solutions. Contrary to what some believe, it is not a buyer's market for talent. Executives will only move if they perceive the firm as a partner in their long-term future.

Post-Crisis, The Sentiment Changes Dramatically

What a difference just a few years can make.

In 2009, our research indicated that almost three-quarters of the senior executives working in the investment management and wealth management business were dissatisfied with their job and were looking for a new opportunity.

Four years later, there's been a complete reversal. Today, more than 60% of the executives polled in our *Fourth Annual Executive Survey* are satisfied with their current position and aren't looking for a new one. In fact, less than one half of the respondents in our 2012 survey were inclined to look for another job—the lowest percentage since we began our research.

Another surprising finding from the 2012 survey: Equity ownership is more important than ever. Executives say they are willing to stay put or even defer compensation if it means an opportunity to share in the upside of the firm's success through equity.

In this white paper, we'll analyze the results of our survey and offer recommendations for succeeding in today's marketplace. In Part 1, we highlight the major findings from our research. In Part II, we translate these findings into concrete strategies for companies seeking to compete for scarce talent in the marketplace.

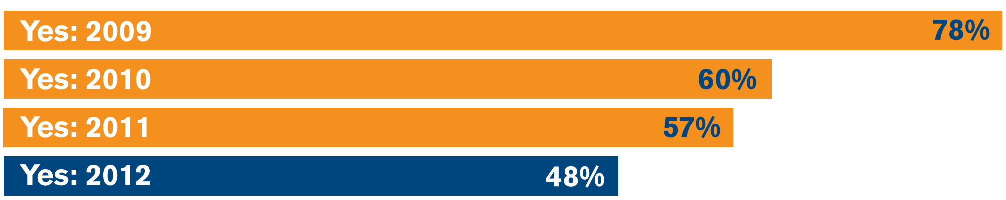
Survey Methodology

The Kathy Freeman Company survey was conducted over a six-week period at the end of 2012. Hundreds of industry leaders responded to the poll. The participants were personally selected by The Kathy Freeman Company and identified as currently employed with an established career in sales or marketing. The respondents had no less than 10 years of experience within the investment or wealth management industry. Over 70% of those have more than 20 years of experience.

Part I: 2012 Survey Findings

Finding No. 1: More Are Satisfied With their Current Position

"Are you likely to consider an opportunity outside your current firm this year?"



The 2012 survey made one fact perfectly clear: The task of finding executives is now going to be harder than it has been in many years.

Despite national unemployment of just under 8% and the recent job reductions at many financial services companies, many executives are quite content where they are. They know they should or can be particular when it comes to evaluating a new opportunity.

In fact, the recovering economy is presenting industry executives with more options as the gloom of the financial crisis has started to fade. The improving job market is in marked contrast with the recent past. Since 2008, the number of attractive opportunities has been limited. A consistently low number of executives—20% year-over-year based on our research—have actually changed employers.

Interestingly, the number of executives seeking change compared to those who are content continues to trend sharply downward. Our 2009 data indicated that nearly 80% were dissatisfied with their current firm and would consider making a change in the New Year. In 2010, the percentage fell to 60%, and in 2011 to 55%.

In 2012, only 48% of our respondents were dissatisfied and were considering a change in 2013. *That's a decline of over 30% from our initial study in 2008.*

It is apparent that firms have done a better job of keeping their talent engaged. Or, the improvement in the economy has simply allowed for greater opportunity to grow and create success. Either way, satisfaction levels going into 2013 are up considerably.

What accounts for the different perspective? Most importantly, executives who stay at their firm say they are making a meaningful contribution and report overall job satisfaction. Secondly, they are satisfied with their equity/ownership structure, which could prove to be a significant future reward for them.

Of those who did leave, a better opportunity was the primary driver. More than a quarter cited that as the reason for leaving. Job dissatisfaction accounted for another 25% of the departures. Only about 20% left due to workforce reductions.

Respondent Comments

"I am satisfied with my current firm, but have learned to be open-minded."

"I get full freedom to create what I think will be valuable to the firm."

"I am more interested now in building something that I can be a part of and less interested in being only a so-called hired gun."

"Rewards/equity ownership and sales/revenue generation would be key [to making a change.]"

Upbeat Outlook for 2013

"Do you perceive the job market to be better or worse than last year?"

The optimism that pervades the research also indicates that while these executives are much more engaged and satisfied with their current positions, 80% of respondents also perceived the job market to be more robust than in years past. If the perception is that the market is rebounding, then companies may need to adopt a defensive strategy to retain the talent. Even those individuals that aren't proactively looking may jump for a compelling opportunity.

Given that more executives are happy and also understand there is more opportunity to land another position, what's the right human capital strategy? Finding No. 2 may provide some of the answers.

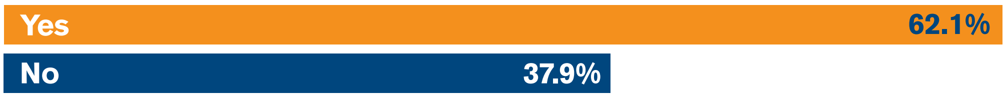
Respondent Comments

"While the job market overall seems to be improving, the looming fiscal cliff and shaky state of the economy makes me hesitant to move."

"I did not have an issue finding opportunities."

Finding No. 2: Equity Becomes More Important

"Considering compensation, has equity become a more important priority to your total compensation package today than it was 5 years ago?"



"Would you be willing to consider less cash compensation today for equity ownership at another firm?"

When it comes to compensation, executives appear ready to put their money where their mouth is.

A total of 62% value equity more today than they have in the past, according to our research. The same percentage—62%—said they would sacrifice cash for an equity stake.

This shift toward equity indicates greater optimism about the future of the industry. Our recent conversations during current search assignments confirm our research. Executives are exhibiting confidence both in the opportunity in front of them and their ability to drive results and growth in their businesses. This is a very healthy sign for the industry.

Respondent Comments

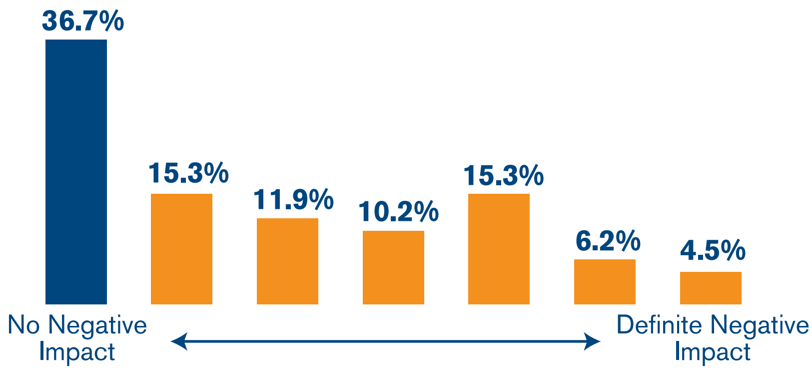
"If I were to call out one really significant sore point in my current compensation package, it would be that I don't feel like I'm receiving anywhere near as much equity as colleagues…"

"If somebody makes me a more compelling offer on the back end with equity, I will consider it."

"Yes. It is more important to me, but it is harder to find a role that provides that incentive."

Finding No. 3: People Remain Bullish on the Industry

"What impact, if any, has the industry's current events, (fiscal cliff, recent elections, tightening regulatory environment) had on your motivation/passion for your career in Financial Services?"



"Considering your previous answer, are you contemplating opportunities or a career path outside of Financial Services?"

Despite the market crash, the scandals, the Occupy Wall Street movement and the recent threat of a fiscal cliff, more than 65% of our survey respondents expressed little to no fatigue about the industry. More than 80% would not consider leaving the industry due to any previous or pending turmoil or challenges in the financial markets.

Moreover, only a small percentage of executives are interested in starting their own firm. Only 28% said they wanted to build their own company. The research validates what we have known all along: That only a few intrepid executives are willing to take the risk to build something on their own. Most believe that working with a profitable firm with a well-defined business strategy is the best way to proceed.

Respondent Comments

"The current environment has actually highlighted the benefits of truly superior investment talent."

"More of an opportunity to educate and be seen as a thought leader."

"I believe the challenges we've been facing have actually improved our firm's positioning in the marketplace and created a greater need for our solutions, vision, and leadership."

"There is always noise in the marketplace. It serves to create opportunity."

"Anyone who is in this industry better be prepared to deal with crisis and uncertainty. It will always be something."

Part II: Human Capital Strategies for 2013

The survey findings confirm that employers cannot simply stand back and be cautious. Over the past few years, many have adopted a more passive approach in their recruiting strategies. In 2013, our research indicated that sitting back is unlikely to advance a firm's strategic objectives because candidates are mostly satisfied, and the job outlook has brightened.

To succeed, firms should consider the following three strategies:

1. Link compensation to the success of the firm.

> Employers need to review the current compensation plans of senior sales and marketing executives. Our 2012 research found that executives want to share in the upside of the firm's performance through equity participation. They are willing to risk the potential for the down side. Does your existing plan provide for equity opportunities? Does it have a profit-sharing plan?

> Especially for bank-owned asset management firms or insurance-owned asset management firms, a plan for sharing equity is critical. Does your existing plan allow performance-oriented individuals and teams to realize meaningful wealth creation for building success within their subsidiary? Given that many banks in today's low interest rate environment rely on their asset/wealth management subsidiaries to drive profitability, an opportunity should exist to reward outperformance, particularly if the financial institution's share price remains flat.

2. Empower your executives to build a better firm.

> Another key message from our 2012 research is that talented people want an opportunity to build something meaningful at their firm. Whether it is a new business line, new product or new distribution strategy, executives prefer firms where they are encouraged to create value. Proactively culling ideas from within the ranks gives individuals greater opportunity to contribute to the firm's success. They feel empowered.

> Firms should be prepared to reward and recognize ideas that are adopted, whether large or small. Our 2012 research demonstrated that rewarding creativity creates job satisfaction, including a sense that executives are making a real contribution. If your firm doesn't have a strategy to promote idea generation internally, you should launch one immediately.

> A clearly articulated succession plan is another mechanism for keeping talent. How many times have we heard of a firm trying to retain departing executives who had no idea of the firm's future plan for their career? Make sure top performers know the company recognizes their value. Be sure there is a concrete plan for their continued growth in the organization.

3. Be more decisive in the hiring process.

> Perhaps most importantly, firms will need to act quickly in their recruiting efforts. The elongated hiring cycles of the past few years won't work in this environment. If the right person is identified in the first round of interviews, be prepared to make a decision. In years past, where it has been a "buyer's market for talent," doing an exhaustive search for the right fit might have been tolerated. Today, talented individuals may not have the patience. When a candidate buys off on a firm's well-articulated vision, that individual expects a reciprocal level of enthusiasm about his or her capabilities. A gap in the pace of the hiring process creates a sense of uncertainty. The more competitive the landscape, the more proactive pursuit will be required.

Conclusion: A Time For Action

Our 2012 research concluded that employers have an opportunity to grow their companies in 2013, but they need to be sensitive and attentive to the changing dynamics in the marketplace for talent.

For the first time since the financial crisis, top executive will consider another position only if a compelling opportunity presents itself. In today's business climate, it's simply a mistake to think it is a buyer's market. In truth, employers will have to sell their firm's vision to acquire the talent they need to grow.

For those who understand the current economic landscape and the need for empowered leadership, there is an opportunity to recruit the best talent in the marketplace.

About The Kathy Freeman Company

Since 1992, The Kathy Freeman Company has specialized in attracting, assessing and securing client-facing executive talent for the investment and wealth management industry. A retained executive search firm with national focus, The Kathy Freeman Company works with premier asset management firms, wealth managers, private banks and trust companies, investment technology firms and service providers to the investment industry.

We've succeeded in helping our firms achieve their business objectives by executing a disciplined methodology that consistently delivers the perfect fit. This approach is based on an explicit interviewing and assessment process that enables us to identify the best and the brightest. We have consistently proven our effectiveness in analyzing the characteristics of outstanding performers for more than two decades.

Whether our clients are household names or boutiques looking to establish a greater presence, they turn to The Kathy Freeman Company to find the executives who will become their motivational leaders, business visionaries and top producers.

Work with us and see how we can drive the growth of your firm.

Kathy Freeman Company

Executive Search for Financial Services

For more information, call 805.542.0800 or visit www.kathyfreemanco.com.