8th Annual Executive Survey Talent Trends for 2017

Disruption & Opportunity: Navigating in a Rapidly Changing Market

Kathy Freeman Company

Executive Search for Financial Services

April 2017

Executive Summary: M&A Activity Expected to be Best Opportunity to Recruit Talent in Extremely Tight Market

The Topline

Client-facing executives in the investment industry are optimistic about their careers in 2017. The latest Survey results revealed that the majority of executives are generally satisfied with their current role, their firm and their compensation. Moreover, they will be less open to considering a new role than any time since 2009. In a tight market like this, firms must rethink their talent strategy. To attract passive candidates, employers need a comprehensive approach that includes excellent pay, clear opportunities for professional growth, and enhanced corporate messaging that highlights a positive culture. Despite a dearth of talent, there will be opportunities to bring on star performers this year. Accelerating M&A activity may create one of the best opportunities to hire executive talent in 2017.

Five Key Findings

The 8th Annual Executive Survey by Kathy Freeman Company identified five macro trends that will define the hiring environment in the investment industry in 2017.

First, it will be even more difficult to dislodge top talent from their perch. Their reluctance to take another position or even consider another position is significantly greater than it was in last year's Survey.

Second, industry consolidation may be the silver lining for employers searching for talent. Numerous people, for a variety of reasons, will find themselves out of work. Those who are retained will likely be open to exploring opportunities due to the uncertainty.

Third, compensation is not a pain point for many executives this year, unlike recent years. While compensation is rarely the primary motivator for a career transition, employers need to offer competitive pay. The survey revealed that the combination of increased compensation last year and expectations for additional increases in 2017 will temper any executive's appetite for change.

Fourth, many respondents acknowledged that their firm's succession planning and efforts to develop the next generation of management are lacking. It was surprising to see that a significant portion of respondents indicated that neither of these seemed to be a priority in their own organization. Leadership development and succession planning are critical to the sustainability of firms, regardless of size.

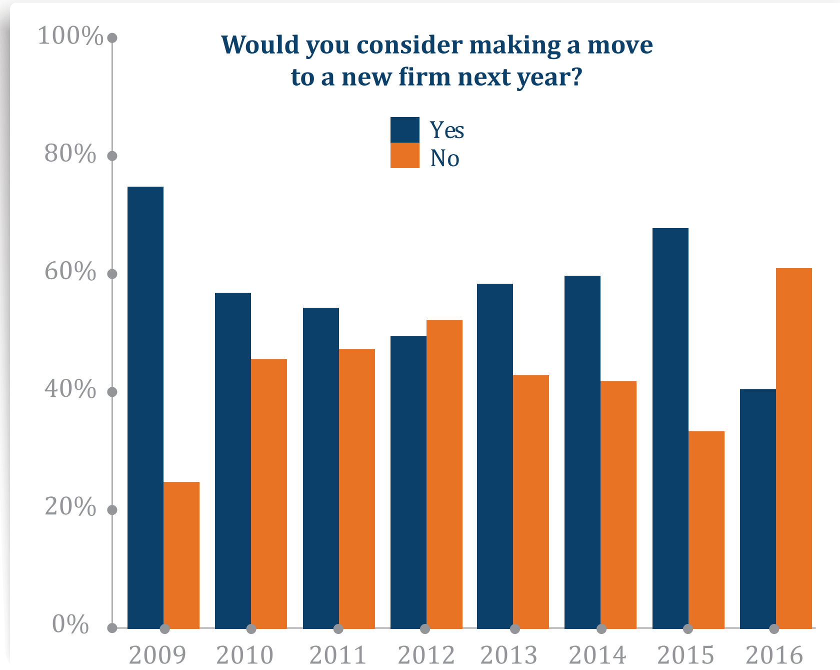
Top Findings 8th Annual Executive Survey

- Recruiting in 2017 Won't Be Easy
- The Industry is Consolidating – Why That's Good News
- Despite Market Volatility, Compensation is Trending Up
- Lack of Succession Planning and Leadership Development Leaves Firms Vulnerable
- It's Not All About the Money – the Intangibles Are Increasingly Important

Fifth, intangibles are playing an increasingly important factor in hiring and retention. Most survey respondents prioritize around culture, challenge and having sufficient responsibility to keep them fully engaged.

Finding No. 1: Recruiting in 2017 Won't Be Easy

Two of the Survey's key metrics – did you make a move in 2016, and are you willing to consider a move in 2017? – clearly show that people are staying put. Only 18% moved to another firm in 2016, slightly up from 15% in 2015. The increase was not statistically significant and has been roughly the same for years. However, only 39% said they would be willing to consider a move in 2017, down from 66% the previous year. In short, executives in 2017 will be less open to a conversation about changing firms than any time since 2009.



Finding the candidates most willing to move remains the art of executive search, and identifying and recruiting the best talent in this environment continues to be challenging. We found that in our pool of placed executives in searches conducted by Kathy Freeman Company in 2016, the tenure of these executives was significant – on average, nine years. Often, these were extremely loyal employees, and dislodging them from their current firm was difficult. On the other end of the spectrum, we noted a significant increase in interest from candidates with no tenure in their career history. Our clients look skeptically on those who change firms regularly, especially when looking to hire candidates as a long-term fit.

In 2016, the search process was generally a lengthy one. It often took multiple contacts by phone or email just to initiate the conversation. The courting process had to be purposeful yet unrushed. The foundation for a successful search in this tight talent market is built on authentic relationships with candidates. In 2016, candidates had to be presented with an "almost too good to pass up" opportunity. They also wanted to conduct extensive due diligence on any prospective firm and have significant collaboration with all parties to successfully complete the journey to a new firm.

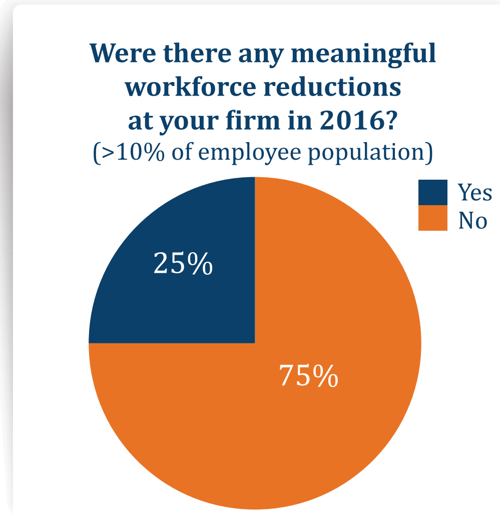
Recommendations

Purpose and patience are critical in attracting new talent to your firm in 2017. Firms must have a clear vision about their needs, including the specific skillsets and abilities that will add value. Firms must also clearly explain how they will continue to build an individual's career. Additionally, loyal talent won't respond to a lackluster story at an average firm; they want new or continued challenges and stability. Patience in the hiring process allows for highly tenured executives to absorb the concept of change. Successful hires aren't the result of a transaction – they are the result of a real relationship.

Finding No. 2: The Industry is Consolidating – Why That's Good News

One fact is certain over the next few years: M&A activity will continue. Due to a variety of market forces, more firms will be acquired and merged. There will be dislocation resulting from immediate workforce reductions and those leaving post-deal because of dissatisfaction with their role or firm's new direction.

Frankly, we were surprised by the level of M&A or consolidation our respondents are expecting in the coming years. A quarter of respondents said their firm already experienced a workforce reduction of 10% or more in 2016. Twenty-five percent expect that their firm may be merged or acquired in two years. Forty-four percent think it's possible their firm will be merged or acquired within the next five years.



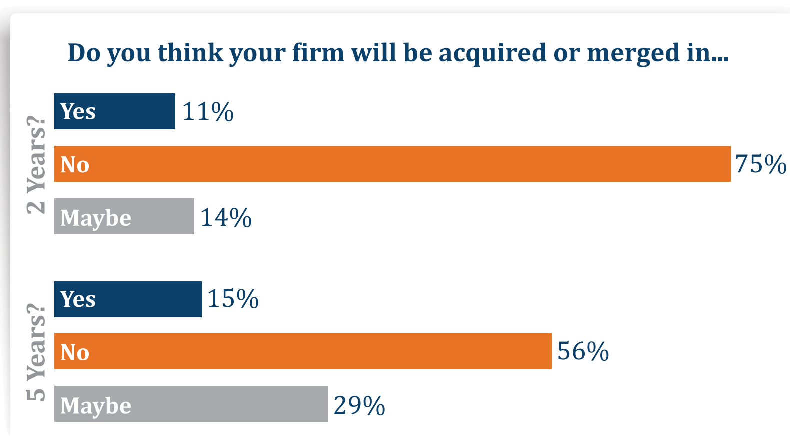
A byproduct of the creative destruction taking place in the investment industry is fear and uncertainty. Any time there are workforce reductions, there is always trepidation about larger and deeper cuts. The net effect is usually diminished confidence about career growth, compensation and culture. On the bright side, consolidation may compel some highly accomplished executives to consider new roles. We see a window of opportunity to recruit excellent talent this year and over the next few years.

Recommendations

Recognize that industry consolidation is a unique opportunity to acquire top-tier talent.

Make it a priority to consider those affected by consolidation. This includes individuals caught in a downsizing due to an outlier compensation package or those laid off as new management takes over, among others. For those executives retained after a merger or acquisition, the uncertainty often triggers a willingness to consider new opportunities.

Move quickly to articulate your firm's strategy post M&A or risk losing good people. Especially in times of uncertainty, leadership must quickly lay out a clear and compelling vision for the future. The importance of communicating a coherent strategy post-deal that employees will embrace cannot be emphasized enough.



Finding No. 3: Despite Market Volatility, Compensation is Trending Up

This year's survey is the first that we specifically asked for data about salary and compensation. Surprisingly, 45% of respondents saw their compensation rise in 2016, and 50% expect to see their compensation increase even more in 2017. Firms are stepping up to retain their best talent with attractive compensation packages.

One of the more pronounced trends in the data is the move toward base salary plus an annual bonus component, instead of more frequent variable payouts. Thirty-five percent of respondents saw changes to their compensation in 2016. Another 39% expect their compensation to change in 2017. Respondents said annual bonuses are becoming more common and are replacing monthly commissions, semi-annual bonuses or quarterly payments. In an era of shrinking margins, firms are looking to manage to a predictable compensation number for the entire firm. Annual bonuses provide more flexibility to manage the firm's cash flow.

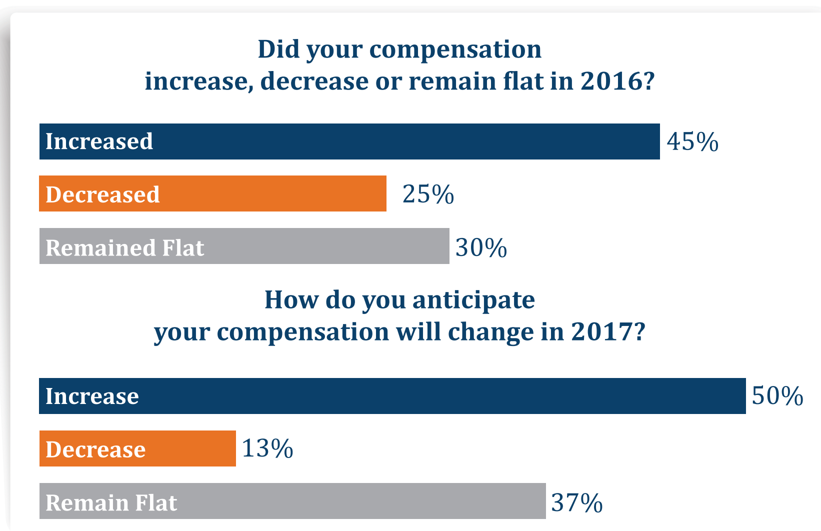
Of those who received pay hikes in 2016, almost 40% said the increase was between 11% and 25%. These substantial increases are indicative at some firms of "battle pay." At others, it is a byproduct of growth. In comparison, only 24% saw their compensation decline.

Equity, as we have noted in years past, is almost a given and is typically part of any package for senior talent. An overwhelming majority have it, and 65% said their equity is a "meaningful" retention tool.

Recommendations

Show your commitment to talent by increasing base compensation. Higher base pay expresses a greater commitment to employees. Gone are the days when someone made $75,000 in base, but earned $1 million due to variable compensation. For regulatory and other reasons, the optics of that compensation arrangement are now unworkable. Today, firms are gravitating toward a more predictable and targeted compensation structure, which incorporates higher base pay.

Prepare executives for changes in the compensation landscape. Many firms are rapidly revising their compensation structures. To retain your best talent, it's critical to initiate conversations with your team about possible changes ahead of implementation. Sudden changes in an individual's cash flow will cause concern if not positioned properly and without advanced notice. For individuals working at a firm that has not yet been affected by these changes, gear up for change.



Finding No. 4: Lack of Succession Planning and Leadership Development Leaves Firms Vulnerable

For 2017, a red flag for employers emerged regarding succession planning and developing the next generation of leadership. Fifty percent of leadership respondents noted that they have not proactively developed their own succession plans. Additionally, 44% of all respondents said their firm is not doing a good job of grooming and developing new executive leaders. It's essential to incorporate innovative thinking into the leadership team and cultivate new perspectives through succession planning and development programs. Failure to groom the next generation of managers increases the likelihood that top emerging talent will look elsewhere.

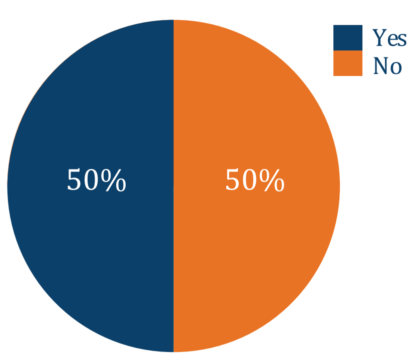
Leadership development is also important because of the crosscurrents buffeting the industry. These include the challenges of building more efficient and effective distribution organizations, rationalizing an investment product lineup, increasing profitability and addressing regulatory changes. To be sure, there are some terrific firms that have fully committed to cultivating the next generation of leadership. Comments from this year's Survey respondents indicate there is still room for improvement.

Recommendations

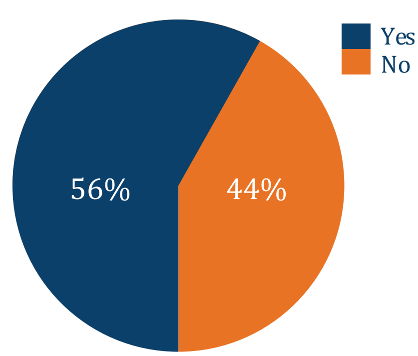
Allocate time and budget to developing leaders and up-and-coming talent. Successful firms actively mentor and encourage learning, exploration and development. Create rotational programs for high-potential talent, including Millennials, and partner them with senior executives. Additionally, leaders seek opportunities to grow, so it's critical to give your top people the tools and time to further develop their capabilities. Invest in Executive MBA programs, additional designations or executive coaching. Leaders are motivated by the challenge of improving their own performance. Employees are motivated by strong leaders.

Incorporate succession planning into each executive's career path. Given the often punishing pace of the investment industry, it's no surprise that many firms lack a succession plan. Since succession planning is essential to transferring institutional knowledge, companies need to mandate this from the top down. Succession planning should be incorporated into every executive's bonus structure to ensure alignment.

Do you have a succession plan in place to transition your insights to someone else at your firm?

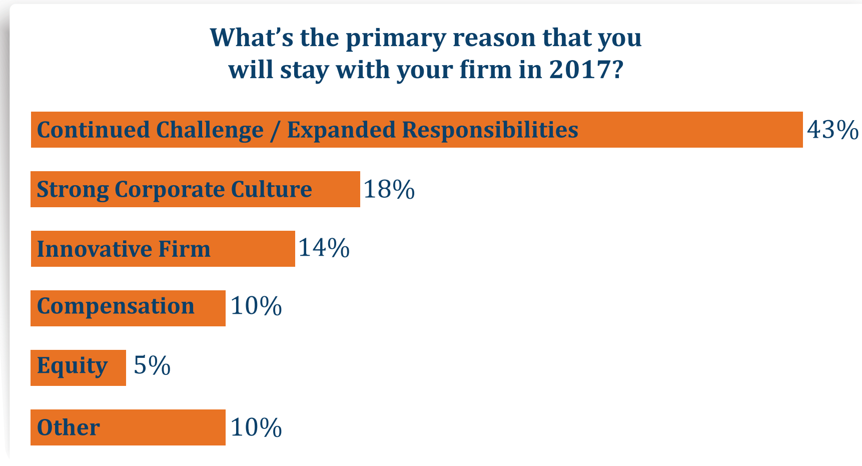


My firm is proactively working to develop the next generation of executive leadership.



Finding No. 5: It's Not All About the Money – The Intangibles Are Increasingly Important

Successful firms place the highest priority on retaining their best people. We see this year after year, as we measure why high-performing and highly compensated individuals remain with their existing employer. In our 2017 Survey, continued challenge is the primary reason that individuals will stay with their firm. The second most cited reason for staying is a strong corporate culture at 18%. This is a priority we've confirmed from candidates during our search work. Competitive cash compensation came in at 10%, while equity came in at 5%. The key takeaway is that successful executives won't make a career move solely for compensation if their current pay is in line with the industry norms. They will view compensation as a minimum bar rather than a retention tool.



Interestingly, the heightened level of employee engagement this year may likely correlate to the significant regulatory changes underway. While regulations like Dodd-Frank are often perceived as costly governmental overreach, they have been a driving force of innovation. As firms respond, their best and brightest are rising to the challenge of reimagining what is possible.

Once again, we found that a firm's culture remains key to retaining top talent. Companies with winning cultures provide flexibility to employees. These firms are less interested in which hours are worked each week. Instead, they understand that high-performing individuals will happily work nights or weekends when allowed to attend a child's school or sports activities, help aging parents or attend to other personal or family matters. The bottom line is that the intangibles determine whether there is a good long-term fit at a firm. They set the stage for a successful offer/acceptance.

Recommendations

Make sure employees have clarity about their opportunities for professional growth. If retention is predicated on giving star performers ongoing challenges, firms need to be very intentional about how that occurs for each person. Conducting one-on-ones at the beginning of each year can help a firm identify the next set of challenges for every individual and determine if leaders and top performers believe that challenge is sufficient.

Evaluate your firm's culture from an external lens. Take stock of your firm's culture by getting an objective, third-party point-of-view. Many HR executives regularly look at Glassdoor, a portal where current and prior employees comment on a firm's culture. Beyond that, proactively seek out candid insights about your firm. Sometimes, a company's culture and values shift subtly over time and are no longer consistent with what they formerly represented. Plenty of firms in our industry are unaware that they aren't attracting the best talent simply because of their cultural baggage. Directly address any negativity.

A Call-To-Action

Our research points unequivocally to a continuing tight market for top-performing talent. Firms looking to expand or solidify their team need to be prepared for a long courtship. As important, all offers need to be thoughtfully crafted to emphasize a long-term partnership between the firm and the candidate.

2017 is the time to strengthen your corporate culture by welcoming outside feedback from candidates or third parties. It's imperative to address any issues in your corporate culture as quickly as possible. Additionally, succession planning and leadership development should be elevated as a priority to retain your best talent.

Finally, with respect to M&A, be prepared to take advantage of the unfolding dislocation in the market. Highly-tenured executives and other top prospects may be open to leaving their firm in the aftermath of M&A. At the same time, if your firm is an acquirer, be sure to effectively communicate your new vision and extend to your existing employees the same opportunity and benefits to those who join as a result of an integration.

Survey Methodology

Kathy Freeman Company's 8th Annual Executive Survey was conducted over an eight-week period in the fourth quarter of 2016. We purposely complemented our targeted audience of senior leaders with millennial talent to embrace a broader industry perspective. All participants are hand-picked by Kathy Freeman Company to respond to the online survey. It is required that respondents are currently employed with an established career in a sales, marketing, strategic or client-facing capacity within financial services. Participants represent firms in asset management, wealth management, alternative investments, private banks and trust companies, and service providers to the investment industry. All respondents have no less than ten years of experience while over 66% of those surveyed have more than 20 years of experience in the financial services industry.

Unparalleled Experience and Perspective

Celebrating 25 years, Kathy Freeman Company has conducted hundreds of assignments across the country exclusively within the investment industry. Our goal is to provide insights about the prevailing attitudes and preferences of executives through multiple market cycles. Having the privilege to gather this data and underlying commentary provides us with an enhanced ability to better advise our clients to attract the best-in-class talent.

The Perfect Fit

We take inspiration from our clients who have shown us that success is predicated on process, discipline, and a commitment to excellence. Our search work is based on a customized methodology developed and refined for 25 years that enables us to craft the best fit for each client in every unique assignment.