9th Annual
Executive Survey
Talent Trends for 2018

Late Adopters Finish Last: Why Change Is Critical In Today's Talent Market

CELEBRATING 25 YEARS | Kathy Freeman Company
DEDICATED TO THE PERFECT FIT

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I. Executive Summary

The state of the investment industry is good – very good. By almost every measure in Kathy Freeman Company's 9th Annual Talent Trends Executive Survey, investment industry professionals are feeling positive about their careers and the industry. This is a refreshing contrast from just a few years ago, when dissatisfaction was at an all-time high. However, with record-low unemployment rates and record-high wage growth, it will be a sellers' market for talent in 2018. Firms must be prepared to compete aggressively to recruit and retain the people they need.

II. Aim and Scope

The objective of Kathy Freeman Company's Annual Survey is to help firms in the investment industry make better strategic decisions about talent acquisition and retention. Each year, the study gathers industry sentiment about career satisfaction, measures people's propensity to change firms, and identifies factors that will impact human capital strategies.

III. Methodology

Kathy Freeman Company's 9th Annual Executive Survey was conducted over an eight-week period in the fourth quarter of 2017. Participants to the invitation-only survey have connected with Kathy Freeman Company over the firm's 25-year history. Respondents must be employed at the time of completing the survey and have an established career in financial services with leadership, sales, marketing, strategy or other client-facing capacities. Participants represent firms in asset management, wealth management, alternative investments, private banks and trust companies, fintech and service providers to the investment industry. All respondents have no less than 10 years of experience, while 64% of those surveyed have more than 20 years of experience.

IV. Talent Trends That Shaped 2017

The 9th Annual Survey identified four key trends that will set the stage for talent decisions in 2018.

No. 1. Very few professionals moved to new firms.

Only 10% of those surveyed took another position in 2017, down from 18% in 2016 and from 15% in 2015. This is the least amount of movement identified since initiating this research nine years ago. Of those who did find a new position in 2017, many said they had been previously laid off. In short, talent remained passive about contemplating other opportunities.

No. 2. Compensation was up but fundamentally changing.

Although compensation was up strongly in 2017, a growing number of firms changed the structure of their compensation packages. More than 32% of respondents said their compensation structure changed in 2017.

No. 3. The industry is losing the battle for the hearts and minds of Millennials.

Investment firms still lack a fundamental understanding of how to attract the next generation of employees. Two-thirds of respondents readily admitted their firms are struggling to lure Millennial talent into the financial services industry and away from exciting, high-growth sectors like technology.

No. 4. The industry is not adapting to change quickly enough.

Almost half of respondents indicated their company is not responding fast enough to changes in the investment industry. This slow approach to innovation has raised concerns about the sustainability of their firms.

V. The Macro Picture for 2018 – Implications for a Mature Industry

With the financial crisis and an oppressive regulatory environment now in the rear-view mirror, the industry has turned decidedly upbeat. Economic growth is strong, the market is still significantly above its level a year ago, job satisfaction remains high, and compensation continues to climb. Executives are happy in their positions and are generally satisfied with the direction and stability of their firms.

Another positive economic indicator is the outlook for M&A. Only 17% of respondents thought their firm might be acquired in two years, while 41% expect a possible merger or acquisition within five years. In 2016, these numbers were higher; 25% thought their firm might be acquired or merged by 2018, and 44% expected a possible transaction by 2021.

Lastly, survey respondents are encouraged by what they see ahead. Sixty percent are optimistic about the future of the industry, despite global and political turmoil. Many believe the recently enacted tax bill will be a net benefit. Additionally, 90% said if they had to do it all over again, they would go into financial services.

17% think their firm could be acquired or merged in 2 years

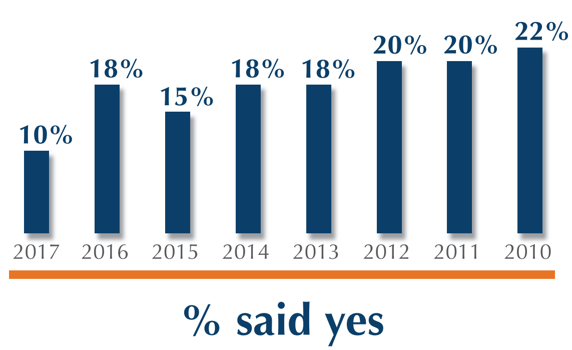
41% think their firm could be merged or acquired in 5 years

V. The Macro Picture for 2018 – Implications for a Mature Industry

i. Recruiting Challenges Will Persist in 2018

The maturing of the investment industry continues to have broad implications to firms' talent acquisition and retention strategies. Many who have highly successful careers are not motivated to explore a change – unless there is either a specific pain point in their current role or a new or compelling opportunity is presented to them. This survey has consistently confirmed the reluctance of tenured individuals to consider a move, and 2018 will be no different. Only 10% took another position in 2017, down from 18% in 2016 and 15% in 2015. There was less movement in 2017 than has been seen since the research was initiated in 2009. One in three who did take a new position in 2017 did not do so voluntarily; they were part of a workforce reduction.

Did you make a move to a new firm in...



In 2018, it doesn't appear the pendulum will swing back to a buyers' market for talent. While the data shows that 43% will consider a move in 2018 – a percentage similar to previous years – the reality is that only 35% consider themselves highly motivated to do so. Executives like to say they are open to moving while only a fraction ever do.

So why are people staying with their firms? The primary reason, as cited by 43% of respondents, is the continued challenge in their current role. The next two highest responses at 12% – stability of the firm and a strong corporate culture. Not surprisingly, compensation-related issues were a lower priority. In this market, where pay is trending up, competitive compensation is a fait accompli rather than a meaningful motivator for a transition.

"Although I am not considering making a move to another firm, I am open to having conversations."

V. The Macro Picture for 2018 – Implications for a Mature Industry

i. Recruiting Challenges Will Persist in 2018 *(Continued)*

Recommendations

No. 1. Position your firm and culture as bullish about the future.

Firms that are winning the recruiting wars project energy and confidence about the future. They have a compelling growth story they always share with candidates. If your firm touts past results rather than future opportunities and expectations, you will not be competitive in winning talent in 2018.

No. 2. Stability still sells.

When considering a change, a candidate's key concern is always the sustainability of the firm. Preempt that concern by highlighting the stability of your team. Point out the low turnover or the highly-tenured nature of your staff. Explain how your firm's culture prompts professional growth and opportunity. Potential candidates will be looking for reassurance that they won't get caught in a last-hired, first-fired scenario if the market has a sizeable correction.

No. 3. Fine-tune your retention strategy.

In a market where exceptional talent is in short supply, successful firms need to take definitive steps to hold on to key contributors. Leadership teams should be thoroughly bought in to their firm's retention and development strategy. This effort should include succession planning, career development, training, mentoring, and work-life integration. Now more than ever, firms should invest in employee engagement to make sure your best people don't leave for the competition.

V. The Macro Picture for 2018 – Implications for a Mature Industry

ii. The Compensation Landscape Is Shifting

Despite the market's recent volatility, compensation is still up compared to a year ago. More than 49% of respondents said their total pay increased from 2016 to 2017. For those whose pay jumped, the increases were notable. An equal percentage expect their compensation to climb again in 2018.

Respondents also confirmed a trend seen with greater frequency – firms are modifying the way they pay their employees. In 2017, 32% said their compensation structure changed. Those changes included higher base salaries with less variable compensation or targeted bonuses. Many also noted a much greater emphasis on deferred compensation. In 2018, one in three expect their compensation structure to be altered.

Recommendations

No. 1. Be prepared to pay up or make tradeoffs.

Not all firms can meet the increasingly high bar in terms of compensation. If your firm is unable or unwilling to offer competitive compensation, you will need to compromise on the candidate's qualifications. That doesn't mean settling for mediocre talent. Instead, it means reinventing the role as a growth opportunity for individuals who have the potential. Be prepared to invest in specific training and development for candidates.

No. 2. Assess existing compensation models.

2018 is the right time for firms to review and redesign legacy compensation packages. Many are no longer sustainable due to shrinking margins and decreasing revenue. Some firms are still paying their employees based on a gross sales vs. net sales model when the firm is in net redemptions. With structural changes already underway, it's a good time to fix broken compensation models.

No. 3. Restructure pay to reduce volatility in compensation.

Firms should also restructure pay packages to reduce compensation volatility. This will be a long-term benefit for both firms and employees. Firms benefit by not overpaying for talent during periods of market outperformance and keeping payroll expenses in a more stable range. Employees benefit by being able to budget with consistent, targeted income as opposed to dramatic fluctuations based on economic conditions.

34% said yes

Do you anticipate a change in your compensation structure in 2018?

"We need to do better with 'career pathing.' Too many firms don't articulate opportunities which makes Millennials feel limited."

V. The Macro Picture for 2018 – Implications for a Mature Industry

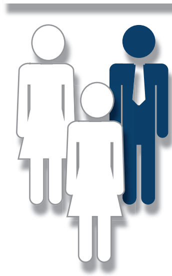
iii. A New Approach Is Needed to Attract Millennials

One of the recurring themes of this survey is that the industry is not attracting the next generation of leaders. This year's data confirms the magnitude of the challenge. Two-thirds of respondents admitted they do not understand what it takes to attract Millennials, those now defined as ages 21 to 37. Another 40% said they would not recommend that their children follow their footsteps into the investment industry.

The lack of interest in the industry – once the darling of those starting out their careers – is due to several factors. First, the industry continues to have a major perception problem. Many Millennials believe that the financial crisis and recession were a result of Wall Street greed. They don't view the industry as a place where they can both earn a nice living and make a positive contribution to society – a dual priority for many. Second, and perhaps more importantly, the technology industry is winning the hearts and minds of this generation. Why work for a stodgy investment firm when you could join a start-up and have it all: a wide range of responsibilities, the opportunity to make a difference in the world, and the possibility of becoming rich before you're 40?

Additionally, the industry still lacks the diversity that many Millennials expect. While two-thirds of respondents said that their firm is making progress in increasing diversity at their firm, an almost identical percentage said the industry hasn't done enough.

Courting Millennials isn't just about igniting interest in the industry; it's also about retaining those currently working in the business. The good news is that 60% of respondents believe their firm is making progress in developing the next generation of executives. The bad news: 40% – a glaring number – work for firms that aren't grooming their talent for more meaningful roles. In this market, firms that don't have a master plan for Millennials are at risk of losing them.



Do you believe the investment industry understands what it takes to attract Millennial talent?

2 in 3 said no

V. The Macro Picture for 2018 – Implications for a Mature Industry

iii. A New Approach Is Needed to Attract Millennials *(Continued)*

Recommendations

No. 1. Redefine your firm's work-life integration.

Technology firms have reinvented the work environment. Millennials, who place a high priority on integrating work with life, expect employers to offer more than free food, gym memberships, or a student loan repayment benefit. They want more flexibility to work from home and programs that reach beyond the workplace, whether maternity or paternity benefits or paying for fertility treatments. Unfortunately, many firms in the investment industry have yet to address work-life integration to the satisfaction of Millennials.

No. 2. Changing the industry's reputation with Millennials must start with each firm.

Now is the time for individual firms to work together to repair the industry's tainted reputation. They need a coordinated industry campaign that does the following: highlights the career opportunities for bright, young people; demonstrates the industry's commitment to communities through corporate responsibility and philanthropy; and communicates the industry's positive economic impact. Changing the current narrative from negative to positive is essential to attract more Millennials to the business.

No. 3. Build leadership teams with emerging talent and seasoned professionals.

Firms must do a better job of providing a voice and career path for younger talent. An effective way to achieve this goal is by pairing Baby Boomers with Millennials. Boomers can help communicate cultural values that are the foundation of a firm's success. Millennials can benefit from the strategic insights, communication skills and internal diplomacy that seasoned executives have fine-tuned over the course of their careers. Mentoring with a focus on skills development and laying out a clear career path are critical to attracting and retaining younger talent.

"My firm needs to lead differently to develop an effective next generation."

V. The Macro Picture for 2018 – Implications for a Mature Industry

iv. Successful Talent Strategies Must Embrace Change

Adaptability, flexibility and innovation are the watchwords in the current market environment. However, the 9th Annual Survey indicated that most firms are mixed – at best – about embracing change. Just over half of respondents said their firm is responding quickly enough to change. That means too many firms are still moving in first gear.

This finding should be cause for alarm. Firms that don't respond quickly enough to change are likely to find themselves on the wrong side of a consolidation play. The maturing of the industry demands fresh thinking across the board – in product development, marketing, sales, client service and distribution. There must also be an intensive focus on building diverse, cross-functional teams that foster innovation in every aspect of a firm's operations.

Recommendations

No. 1. Welcome change, don't suppress it.

New ideas from Millennials can be misinterpreted by senior leaders as criticism rather than creativity. Younger talent wants to be actively involved in shaping the work environment. Some forward-leaning firms have created innovation contests in which the winners present their ideas to the C-Suite or even the Board. Firms need to provide a forum that encourages rather than stifles innovation.

No. 2. Develop a benchmark for innovation and creativity for each leadership hire.

When recruiting, arm each interviewer with a set of indicators and questions that will assess a person's willingness and ability to think out-of-the-box. A key question to keep in mind: is this individual more comfortable discussing past accomplishments, or is he/she thoughtfully centered on the possibilities that lie ahead? Some firms are recycling leaders who have not proven their ability to deliver meaningful change. Don't settle. Insist upon creativity as a key quality in any candidate.

VI. Conclusion

The market for talent will remain highly competitive in 2018. The 9th Annual Survey recorded the lowest percentage of transition seen since initiating the research in 2009. Clearly, talent is ambivalent about making a move. They're satisfied, making good money, and like where their current firm is going. That trifecta is hard to compete against.

So what's to be done?

It's critical to communicate your firm's commitment to innovation and growth. To both attract and retain talent, firms need to focus on career development and a dynamic work environment that welcomes change. Reinforce that your firm has the vision and strategy to be a winner over the long-term.

When it comes to compensation, get ready to pay more or redefine the role. Compensation is high and is trending higher. Firms that can't pay or are unwilling to pay competitively should be prepared to compromise or trade off credentials, skills and abilities; instead, rely on training and development to groom candidates.

Make sure your firm is also actively working to reframe the perception of Wall Street and the investment industry at large. Without an overhaul of the industry's value proposition and a commitment to work-life integration, the industry will continue to lag the tech sector as a career destination for Millennials.

Firms that embrace change and demonstrate the opportunity for growth will do well in the battle for talent in 2018.

VII. About Kathy Freeman Company

Celebrating 25 Years of Success

Kathy Freeman Company is a woman owned, retained, executive search firm serving the investment industry for the past 25 years. The firm offers to its clients an unparalleled understanding of the full lifecycle of the investment landscape. Its consultative approach, experience, judgement and national network of relationships makes Kathy Freeman Company the go-to partner for companies looking to hire top-tier executive talent reluctant to make a change.

The Perfect Fit

Kathy Freeman Company takes inspiration from its clients who have demonstrated success predicated on process, discipline, and a commitment to excellence. The firm's search work is based on a customized methodology developed and refined to create the best fit for each client. Less than 1% of Kathy Freeman Company's engagements have resulted in a replacement search – an exceptional track record in executive search. This repeatable, process-driven approach and methodology instills confidence that these well-executed searches will produce a successful return on investment.