KATHY FREEMAN COMPANY

EXECUTIVE SEARCH FOR FINANCIAL SERVICES

2019

ANNUAL TALENT TRENDS REPORT

MARCH 2019

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I. OVERVIEW

For ten years, Kathy Freeman Company has authored an annual Talent Trends Report. The Report sheds light on a wide range of topics: job and career satisfaction, willingness to change firms, compensation, the dynamics of career decisions, diversity and inclusion, corporate culture, and the recruitment of up-and-coming talent, including Millennials.

Among the specific trends we identified in our 10th Annual Talent Trends Report:

1. Most Professionals Stayed Put in 2018, But Appetite for Change Is Up in 2019
2. Compensation Structures Continue to Morph, While Overall Compensation Continues to Rise
3. The Investment Industry Is Making Headway on Diversity
4. The #MeToo Movement Is Having Mixed Results
5. The Talent Shortage Was Front and Center in 2018
6. More M&A Is on the Way

In the pages ahead, we'll offer greater analysis and provide actionable recommendations about how to manage talent acquisition and retention in today's full-employment economy.

AIM & SCOPE

The objective of Kathy Freeman Company's Annual Talent Trends Report is to provide insight which supports corporate talent acquisition, retention and human capital strategies. The Report is also designed to provide valuable context to individuals regarding their own career decisions. Our decade-long commitment to this research reflects our continued passion for the investment industry by providing a deeper understanding of the people with whom we work.

METHODOLOGY

The 10th Annual Talent Trends Report is based on a survey conducted over an eight-week period in the fourth quarter of 2018. The Report is based on responses from more than 300 participants who have intersected with Kathy Freeman Company over the firm's 26-year history. Participants must be employed upon completing the survey and must have an established career in financial services in leadership, sales, marketing, or other client-facing roles. Participants work across asset management, wealth management, alternative investments, private banks, trust companies, fintech and industry service providers. Over 70% of those surveyed have more than 20 years of experience.

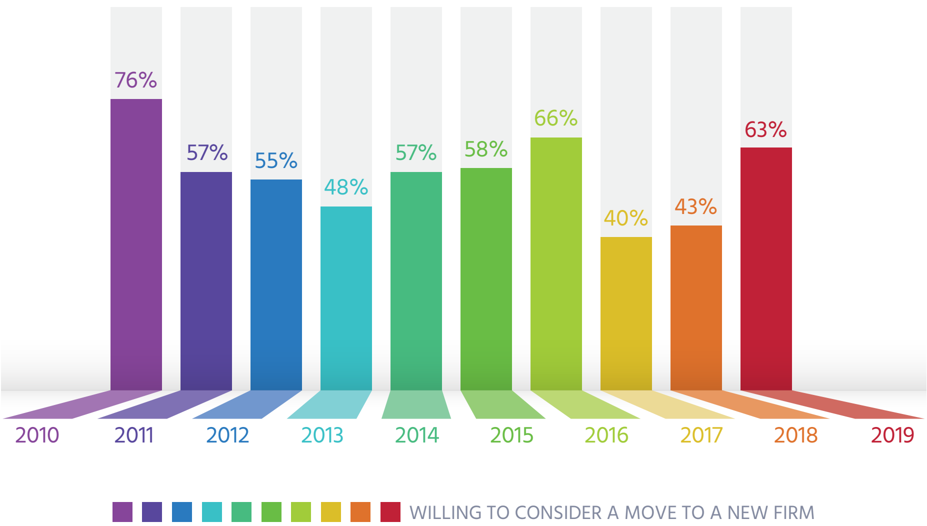
II. TRENDS THAT SHAPED 2018

The investment industry continues to be one of the most dynamic sectors of the economy. Among the trends we found in our 2018 research of industry leaders:

MOST PROFESSIONALS STAYED PUT IN 2018, BUT APPETITE FOR CHANGE IS UP IN 2019

Thirteen percent of respondents made a move to a new firm in 2018, up only three percentage points from 2017. The good news for 2019 is the renewed interest by respondents to consider a change to a new firm. Interest in a new opportunity jumped 20 percentage points from 43% for 2018 to 63% for 2019. Both indicators are hopeful signs for firms seeking to acquire talent.

FIGURE 1: INTEREST IN NEW OPPORTUNITIES



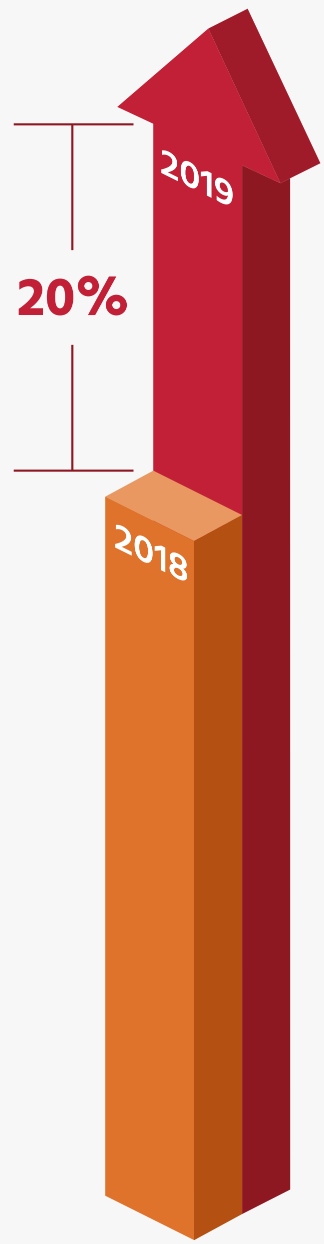
What accounts for this sudden interest in considering a change to a new firm?

First, this jump in interest may have to do with trying to time the market. Like in real estate, many individuals list their house at the peak of the market. The same may be true for talent in the investment industry. Second, market volatility may also be a tipping point, prompting previously content candidates to reconsider the long-term stability of their firms. Third, is the increase in M&A. Disruption upends the work environment, and therefore, provides an entry point for conversations with candidates that wouldn't be possible otherwise. Given this increased appetite for change, firms may want to ramp up their talent acquisition strategies today, identifying future talent gaps that could potentially be addressed in 2019.

INVESTMENT INDUSTRY PROFESSIONALS ARE

20% MORE

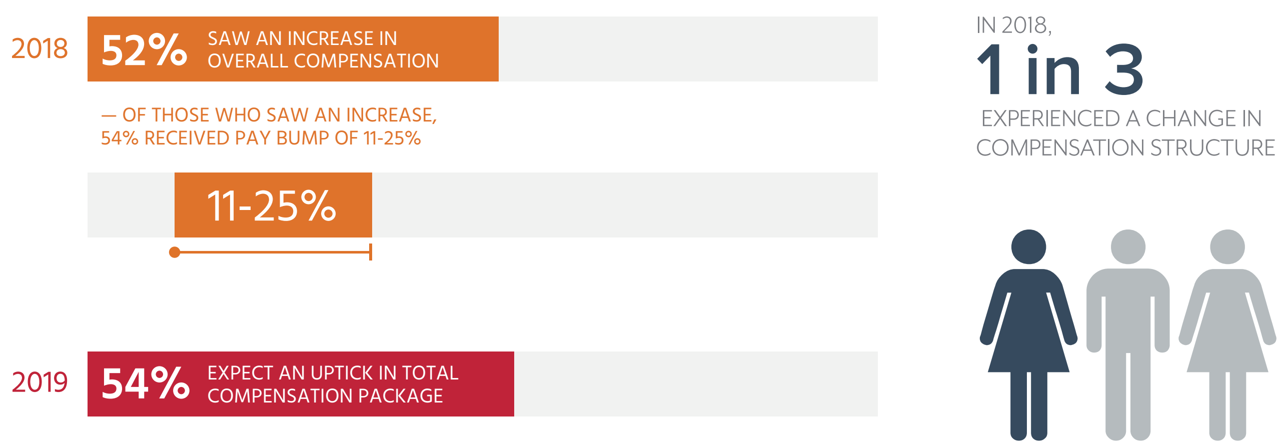
WILLING TO CONSIDER NEW OPPORTUNITIES



COMPENSATION STRUCTURES CONTINUE TO MORPH, WHILE OVERALL COMPENSATION CONTINUES TO RISE

Fifty-two percent of respondents saw their compensation increase in 2018, up from 49% in 2017. Of those who saw an increase, 54% experienced a bump of 11% to 25%. As for 2019, 54% of respondents expect an uptick in their total packages as well. Pay structures also continued to change in 2018, with one in three experiencing a change to their compensation structure.

FIGURE 2: COMPENSATION



How should firms think about talent strategies in such an expensive market?

Higher compensation typically translates into a “job well done.” In other words, it’s an important component of career satisfaction and talent retention. However, compensation is rarely the primary driver when considering a new role, albeit an important one. In 2019, effective talent strategies will, as a starting point, need to include compensation that is competitive with current market conditions. Initiating conversations with potential candidates about a role below market compensation will short circuit an individual’s interest in any firm.

For firms without deep pockets, success is still possible, but they will need to be creative. One way to achieve success is to draft a job description that allows a less experienced individual to evolve into the role. Candidates may be willing to consider some compensation offset in order to transition into a position that increases their career trajectory or broadens their scope of responsibilities. Additionally, paying for advanced education programs or designations can be another selling point for a candidate if a firm can’t afford higher compensation.

THE INVESTMENT INDUSTRY IS FINALLY REGISTERING SOME HEADWAY ON DIVERSITY

In 2018, nearly 80% of respondents said their *firm* had made meaningful advances in terms of diversity. This is terrific news. Some noted that the improvement has been based on the support and commitment from their firm's C-Suite and Board of Directors, while others noted that there's been greater progress in gender diversity as opposed to ethnic diversity. However, when asked whether the *investment industry* is making progress in increasing workforce diversity, over half of respondents said no.

What more can be done to build on this momentum?

Eliminating unconscious bias is one area of opportunity. Unconscious bias isn't gender or racial prejudice. Rather, it's the hidden biases in a person's makeup. Quite often, both men and women have professional or personal networks that are less inclusive of racial and gender diversity, even though the individual may consider himself or herself as unbiased or open-minded. Being self-aware and purposeful about your biases can be a great first step to effectively broadening the pool of available talent at your firm. That's particularly important given the industry's ongoing talent shortage. In 2019, being purposeful to attract diversity individuals should be a key part of any human capital strategy. Creating a dialogue or hosting training about unconscious bias could also be very productive.

THE #METOO MOVEMENT IS HAVING MIXED RESULTS

In light of the #MeToo movement, we asked whether this new sensitivity about gender equity has had a positive or negative impact on the industry. Seventy percent of respondents believe it is having a positive effect on the industry and that this new level of awareness has translated into accountability for reprehensible behavior and infuses a new standard of ethics in the workplace. Interestingly enough, although the data registered as mostly positive, many of the comments submitted by respondents regarding this topic sent a mixed message.

Has the pendulum swung too far?

The #MeToo movement appears to have created a silent backlash and unintended consequences. Today, men are becoming much more cautious, if not afraid, of engaging with women for fear of reprisals. Senior male professionals who have been called upon to mentor women are declining to share their knowledge and play it safe. Firms should consider creating a protocol or fostering proactive discussions in order to perpetuate productive, risk-free, workplace mentoring. This form of institutional knowledge-sharing is essential to the long-term success of any firm and must not be derailed by a well-intentioned movement.

THE TALENT SHORTAGE WAS FRONT AND CENTER IN 2018

Lack of talent has been an ongoing conversation in the investment industry. Our research re-confirmed just how acute the problem has become. Almost 80% of respondents acknowledged their firm can't source at least some of the talent they need to fill open or new positions. Thirty-nine percent believe the shortage is "moderate," 33% say it's "mild," and 7% think it's "severe." This isn't surprising considering the macro picture: Unemployment is at a record low, U.S. employers added jobs for the 100th straight month in January 2019, the cost of talent is increasing, and Baby Boomers are retiring. Additionally, one in three respondents expect their firm to add to its staff in 2019. Over three quarters of respondents expect their firms to continue on a growth trajectory in 2019.

The data also confirmed what we witnessed firsthand during our searches in 2018. Our outreach calls to the market to identify the perfect fit for our clients increased by more than 25% compared to previous years.

How do firms fuel their growth if there isn't talent to support succession plans, expansion, or to simply fill open roles?

Cultivating the next generation of talent is key to successful talent acquisition strategies in 2019. The goal will be to find talent with the right amount of learning agility and existing competencies, so they can grow into leadership roles. Since the investment industry doesn't have the existing talent pool to replace retiring Baby Boomers, looking for younger, high-potential individuals is an absolute imperative in 2019.

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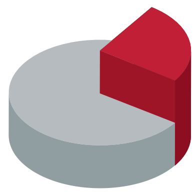
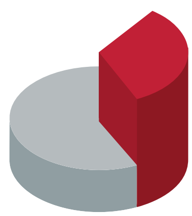
MORE M&A IS ON THE WAY

Our 2017 and 2018 research found that an elevated level of M&A is likely to continue in 2019. Over a quarter of respondents are gearing up for their firm to be involved in a merger or acquisition in the next 24 months. Within five years, more than a third of respondents expect that as a possibility.

FIGURE 3: M&A SENTIMENT





What is the upside to this ongoing disruption?

M&A will be a catalyst to the redistribution of talent throughout the industry. As firms seek to scale through consolidation, there will be duplication of roles resulting in workforce reductions. Those who are unemployed will re-enter the job market while those who remain gainfully employed post-transaction may become open-minded to considering opportunities, likely wanting to benchmark their skills and value externally.

III. KEY TRENDS FROM THE PAST DECADE

It's been said that the past is often a prologue to the future. The 10-year anniversary of our Report is an opportune moment to summarize the decade's big-picture trends in talent acquisition and retention.

To be certain, these trends were the result of an unprecedented series of events. The investment industry ran smack into the Great Recession and then a nine-year bull market. Despite the strong markets, there has also been tremendous consolidation. Margin pressures and fee compression changed the underlying economics of the industry. Additionally, there has been disruptive changes caused by fintech companies which continue to alter the competitive landscape through Big Data and Artificial Intelligence.

Looking back on 10 years of data and our own experience, here are the macro trends that stand out:

THE INDUSTRY REMAINS A WELL-KEPT SECRET

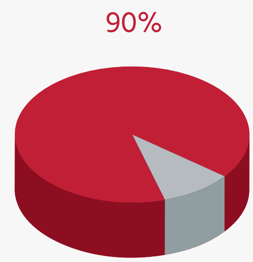
The financial crisis has not diminished the enthusiasm of those in the investment industry. The real issue is that many talented people outside the industry still don't realize it is a great place to build a career, accumulate wealth, and influence the prosperity of individuals and communities, all the while being intellectually challenged.

It's notable that the passion for this industry among investment professionals has been consistently strong through Occupy Wall Street, Bernie Madoff and the fiscal cliff. In 2017, when we asked respondents if they'd choose the same career path again, a resounding 90% said yes. Even back in 2013, when the industry was still feeling the effects from the financial crisis, 81% of respondents said they would recommend the investment industry as a career destination. In 2018, seven in ten respondents thought the investment industry was an attractive career choice for future generations.

Despite the love for the industry, there hasn't been as much success translating this into an effective marketing strategy to educate and attract those in other industries. In 2017, 67% of respondents did not believe the investment industry knew how to attract Millennial talent. Additionally disconcerting, a 2016 poll by the American Association of Individual Investors found that 65% mistrusted the financial services industry to some degree, a full seven years after the Great Recession.

FIGURE 4: INDUSTRY ATTRACTIVENESS

There is still plenty of work to be done to overcome these national misperceptions; perhaps an image makeover is now necessary more than ever. Investment industry professionals must invest in educating future generations about why it is a terrific field to build a career. A few firms have already realized the need to do so and are shining examples of what's possible. They have created deep partnerships with universities to encourage executives to teach classes and create internships that offer firsthand experience that demonstrates the virtues of this business. Since it seems unlikely that firms will band together for an industrywide awareness campaign, outreach must be done by each company as a grass roots effort. If a firm has yet to embark upon a plan of action to inform the Next-Gen workforce on why our industry is so great, 2019 is the time to get started.



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IN 2018,

7 in 10

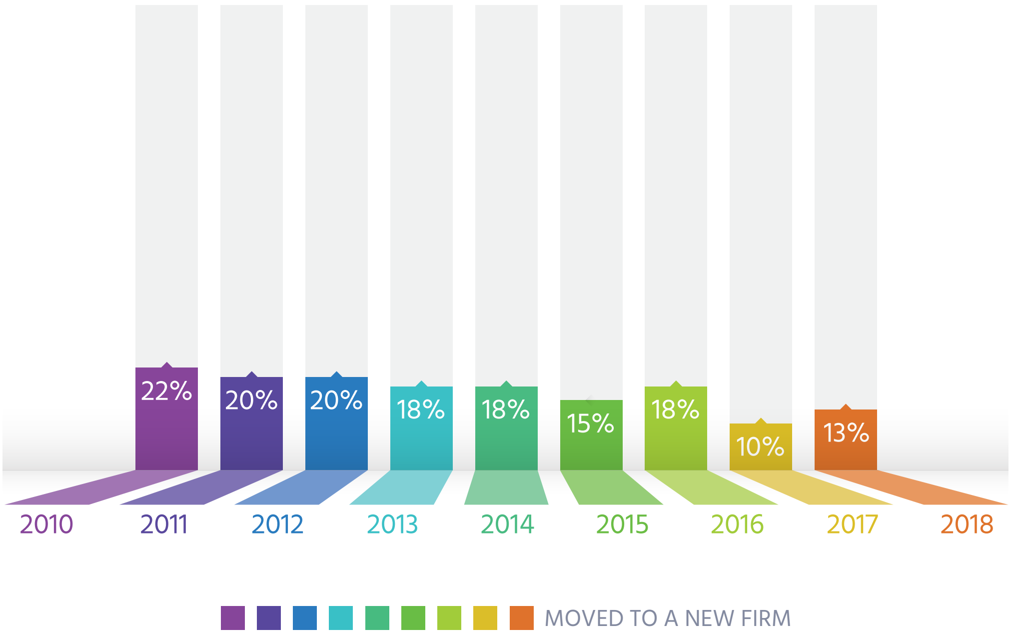
THOUGHT THE INVESTMENT INDUSTRY WAS AN ATTRACTIVE CAREER CHOICE

Key Trends from the Past Decade

THE LACK OF MOVEMENT TO NEW OPPORTUNITIES REFLECTS A PASSIVE MINDSET

Over the past decade, one key finding has been remarkably constant – only a small fraction of respondents change firms each year. Although the number of individuals who changed firms in 2018 increased by three percentage points, it is still insignificant in the bigger picture and reflects a continued reluctance to make a change. It is a reminder that firms need a very compelling value proposition when searching for new talent. The chart below tells the whole story.

FIGURE 5: TALENT ISN'T MOVING



THE EVOLUTION OF PAY PACKAGES HAS BEEN PROFOUND

Numerous changes to compensation have occurred during the past 10 years. Equity ownership has evolved from being a desired component to an essential component of compensation. In our 2012 and 2013 research, more than 60% of respondents said equity had become an increasing priority. An equal percentage said they would be willing to consider less cash compensation for equity ownership. Equity used to be a nice to have; it's now a must have.

During the past few years, we've also witnessed an acceleration in structural changes to compensation packages. Previously, many firms directly correlated variable compensation to a percentage of revenue or basis point payouts (gross versus net). Bonuses were a minimal contribution in the overall compensation scheme. When the financial crisis hit, highly variable pay packages caused tremendous anxiety for individuals. To retain the best client-facing talent during this difficult time, firms stepped up to create a floor in compensation. Since then, the industry has migrated toward minimizing the variability in compensation packages through a variety of tactics. This includes increasing base salaries while decreasing variable payouts or substituting direct commissions for targeted bands of bonuses. This upheaval reflects both the industry's changing economics and a diminished desire for huge swings in annual compensation.

DIVERSITY IS STILL A WORK IN PROCESS

Over the past decade, there has been tremendous focus on increasing diversity. We've witnessed the growing importance of diversity in the past few years, and the results have been powerful and positive. However, we've witnessed a disconnect between firm diversity and industry diversity. Many say that although their firms are making progress, the industry as a whole is not. The data bear out this dichotomy. In 2017, 68% believed their firm had made meaningful progress in increasing diversity. That percentage rose to almost 80% in 2018. Yet, when asked for a gauge on the industry's progress, in 2017, 70% of respondents believed the industry had not made meaningful progress regarding diversity. That number dropped significantly to 53% when we asked the same question about industry diversity in 2018. More sobering is that 50% of respondents in 2018 believe the glass ceiling still exists in the investment industry. To be sure, progress is happening, but much more work is needed.

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IV. THANK YOU

Reflecting on 10 years of research, we couldn't be more gratified to have had the privilege of collaborating with our clients across the country and gaining their perspective on the industry each year. The unique insight garnered from these executives has been invaluable to individuals seeking career benchmarks for themselves and to firms developing their talent acquisition and retention strategies. Moreover, these insights have given us an extra dimension to understand the drivers of change. We've been able to leverage this wisdom to deliver even better results in our search work for our clients.

V. ABOUT KATHY FREEMAN COMPANY

DEDICATED TO THE PERFECT FIT

Kathy Freeman Company takes inspiration from its clients who, like us, are focused on process, discipline, and a commitment to excellence. Our search work is based on a customized methodology developed and refined year after year to create the best fit for each client. Over 99% of our engagements have resulted in a successful fit – a unique and exceptional track record across the executive search industry. Our processed methodology produces well-executed searches and a successful return on investment for our clients.

HELPING CLIENTS SUCCEED FOR 26 YEARS

Kathy Freeman Company is a strategic advisor to the investment industry and a national, retained, executive search firm. Founded 26 years ago, the firm has become the go-to partner for companies seeking to hire top-tier executive talent to power their growth. The firm's unparalleled understanding of the investment industry, consultative approach, experience, judgement, and national network of relationships has earned Kathy Freeman Company a national reputation for excellence. In 2018, the firm was named to Forbes' list of the nation's top 250 executive recruiting firms.

Looking for critical talent to help fuel your firm's growth?

Let's partner together!

805.542.0800
www.kathyfreemanco.com