

2020

TALENT TRENDS REPORT

| Asset Management
| Distribution Leadership



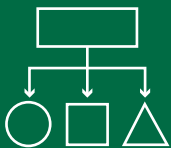
KATHY FREEMAN COMPANY
EXECUTIVE SEARCH FOR FINANCIAL SERVICES

OCTOBER 2020



AIM & SCOPE

For more than ten years, Kathy Freeman Company has authored Talent Trends Reports for the investment industry. Our objective is to provide unique insight about corporate talent acquisition, talent retention, and human capital strategies. Our reports are designed to offer valuable context for CEOs, leaders, and human resources executives who are building firms and expanding teams. They are also intended for individuals who may be contemplating their own career decisions. During this time of volatility and uncertainty, our larger goal is to provide a deeper understanding of the changing dynamics of the landscape for talent.



METHODOLOGY

This Talent Trends Report is based on a survey of an exclusive group of executive-level sales and distribution leaders in Asset Management conducted over two three-week periods in February 2020 and July 2020. Because the world changed so dramatically after the February survey, we surveyed the group again in July which included some questions from the February survey and new questions that were more relevant due to the pandemic. The differences between the February and July survey produced some illuminating insights, which we share in the following pages.

OVERVIEW

2020 has been unlike any year in our lifetime. To start the year, the economy was booming, and the stock market had reached all-time highs. Then, the pandemic hit. Government-ordered lockdowns resulted in a 34% drop in the S&P 500 in March, which was followed by an astounding rebound, trillions in government bailouts, and the possibility of a vaccine by next year. Yet, so much uncertainty remains. During late summer, the market rebounded to all-time highs which was followed by another bout of volatility. It's been a wild ride, to say the least.

So, what are the top-level findings? Asset Management distribution leaders remain upbeat, but the pandemic has fast-tracked the need to think and act differently. In the pages ahead, we offer analysis and actionable recommendations about how to manage talent acquisition, retention, compensation, and succession planning in the current economic environment. We also discuss some specific pandemic-related questions to provide insight about the Asset Management industry's ability to manage unexpected challenges due to the pandemic.

TOP-LEVEL FINDINGS

1

THE PANDEMIC HAS CREATED A NEW WINDOW OF OPPORTUNITY FOR TALENT

2

THE PANDEMIC IS A POTENTIAL GAME-CHANGER FOR INDUSTRY COMPENSATION

3

INNOVATION GAP: FIRMS NEED TRANSFORMATIONAL THINKERS, BUT FIND THEM IN SHORT SUPPLY

4

EXECUTIVES ARE BULLISH ON ASSET GROWTH DESPITE COVID-19

5

SUCCESSION PLANNING: LARGER FIRMS REMAIN A STEP AHEAD



WHAT IS THE PROFILE OF OUR DISTRIBUTION PARTICIPANTS?

25+
YEARS

65% HAVE WORKED IN THE INVESTMENT INDUSTRY FOR MORE THAN 25 YEARS



72% HAVE HELD A LEADERSHIP ROLE IN ASSET MANAGEMENT SALES & DISTRIBUTION FOR 10+ YEARS



25% ARE WOMEN IN ASSET MANAGEMENT SALES & DISTRIBUTION LEADERSHIP

\$1+
TRILLION

34% REPRESENT ASSET MANAGEMENT FIRMS WITH \$1+ TRILLION IN ASSETS

REPRESENTATIVE TITLES OF CONTRIBUTING PARTICIPANTS

HEAD OF GLOBAL / U.S. DISTRIBUTION

HEAD OF GLOBAL STRATEGIC ACCOUNTS

HEAD OF RETAIL SALES

HEAD OF NATIONAL ACCOUNTS / PLATFORM SALES

HEAD OF DCIO

HEAD OF PRIVATE WEALTH, RIA, FAMILY OFFICE

HEAD OF INTERMEDIARIES

DIVISIONAL SALES MANAGER

NATIONAL SALES MANAGER

I. THE PANDEMIC HAS CREATED A NEW WINDOW OF OPPORTUNITY FOR TALENT

After any economic crisis, there always seems to be a silver lining. One positive finding might be a possible tipping point for talent acquisition in Asset Management. Over 60% of respondents believe the pandemic will allow their firms to access talent that was previously inaccessible.

JULY SURVEY

61%

BELIEVE THAT PREVIOUSLY INACCESSIBLE TALENT WILL BECOME MORE WILLING TO CONSIDER A NEW FIRM DUE TO THE PANDEMIC

Based on recent conversations in our search work, three themes emerge about why someone would now be willing to consider a move to a new firm:

First, the remote work environment has transformed the priorities of people working in the industry. After having time to reflect on their careers while at home, individuals have begun to question whether other companies would better support their new appreciation for work/life balance. Second, some say their firm was not transparent or sufficiently supportive during the pandemic. Third, others realize that their firms are not as profitable or sustainable as they originally thought. This bodes well for firms with a strong balance sheet and product mix.

The other possible silver lining the industry did not experience after the last recession is continued hiring. As of July 2020, 71% of participants said their firms would hire for new or open roles, mostly staff roles, for the remainder of 2020.

Firms that continue to expand their workforce may want to take advantage of this window of opportunity. They should consider launching any future critical searches now while talent may be more open to a conversation. Furthermore, if there is a specific individual your firm has failed to attract in the past, the time is right to re-engage with them.



II. THE PANDEMIC IS A POTENTIAL GAME CHANGER FOR INDUSTRY COMPENSATION

The pandemic is likely to be a game-changer for compensation, which has been a hot topic in Asset Management for many years. Because industry margins steadily declined over the past decade, this conversation has only accelerated with added profitability pressures due to the pandemic. The ongoing concern is how to continue paying top performers, while mitigating overall payroll expense and impact to the bottom line. This year, our survey findings suggest that the long-awaited inflection point for compensation may have finally arrived.

JULY SURVEY

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WILL THE PANDEMIC HAVE A LONG-TERM IMPACT ON COMPENSATION IN ASSET MANAGEMENT DISTRIBUTION?

82%

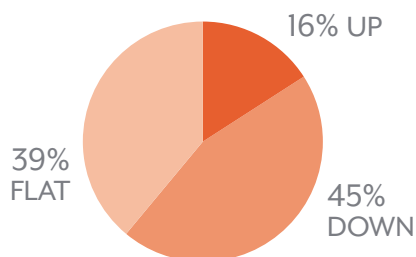
SAID YES



IF "YES," HOW WILL COMPENSATION BE IMPACTED?

77%

SAID DECREASE IN ANNUAL CASH COMPENSATION



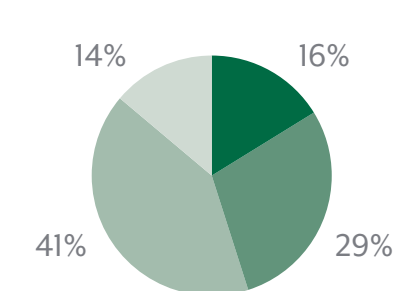
DO YOU ANTICIPATE YOUR 2020 COMPENSATION WILL BE UP, DOWN, OR FLAT COMPARED TO 2019?

In February 2020, compensation for Asset Management distribution talent was still trending up, as it had been for the past several years. Given the bull market, 45% of respondents still experienced an increase in their personal compensation from 2018 to 2019. Fifty percent said their teams' compensation was also up in 2019.

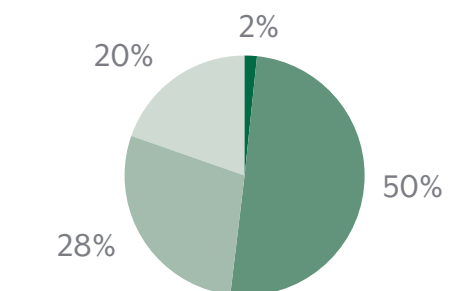
Then the market collapsed in Q2 2020, so it wasn't surprising that a mere 16% of distribution leaders in our July 2020 survey expected their personal compensation to rise in 2020 compared to 2019. Beyond the impact to their own compensation, 82% of respondents expect the pandemic to have long-term implications on Asset Management compensation. When queried on how the compensation shifts will likely play out across the industry, 77% of distribution leaders polled expect annual cash compensation to trend downward in the years ahead. This is a substantial turnaround from February 2020 and the years leading up to this pandemic.

In our view, the pandemic provides an opportunity for firms to rethink compensation. Whether migrating away from a highly leveraged commission model toward a base plus bonus structure, or scaling back compensation levels and expectations for those new to the industry or with less experience, reducing payroll costs appears to be on the strategic planning agenda for Asset Management leadership this fall.

FEBRUARY SURVEY



WHAT BEST DESCRIBES YOUR OWN COMPENSATION LEVEL IN 2019 COMPARED TO 2018?



WHAT BEST DESCRIBES YOUR TEAM'S COMPENSATION LEVELS IN 2019 COMPARED TO 2018?

■ INCREASED ■ SLIGHTLY INCREASED ■ STAYED SAME ■ DECREASED

III. INNOVATION GAP: FIRMS NEED TRANSFORMATIONAL THINKERS, BUT FIND THEM IN SHORT SUPPLY

In a mature industry like Asset Management, innovation is a blockbuster advantage. Yet, distribution leaders indicated there is significant room for improvement on their own teams – a finding that was consistent in both our February and July surveys.

Senior distribution leaders rated their teams a 6 on a 10-point scale for their ability to think innovatively. When queried again in July amid the pandemic, the rating only increased slightly to a 7 out of 10. This finding is even more significant because 80% of respondents indicated that their firms' C-suite encourages innovation.

WE ASKED: HOW WOULD YOU RATE YOUR TEAM'S ABILITY TO THINK INNOVATIVELY?

FEBRUARY SURVEY

6/10



JULY SURVEY

7/10



Because Asset Management is an increasingly commoditized business, innovation can be a major differentiator. Forward-leaning leaders cannot drive innovation and efficiency without transformational thinkers on their teams. However, innovative thinking is rarely a required skillset for a job, nor is it a common benchmark in annual reviews. It should be.

Firms measure many human capital criteria, so similar metrics should be applied to innovation. Once these metrics are in place, leaders will have a way to assess innovative thinking on their teams and during the interview process. Judging by the mediocre marks for innovation given by respondents, clearly there's additional work to be done and an opportunity to be exploited.

The pandemic has negatively impacted the profitability of many, but the most successful firms will look past today's challenges and build for tomorrow's success. Whether realigning human capital to drive greater impact, designing new products, establishing new delivery channels, or creating thought leadership programs, now is the time for leadership teams to encourage and measure innovation and transformational impact across their organization.



KEY QUESTIONS FOR LEADERS TO CONSIDER

- How do I define innovation?
- How do I encourage innovative thinking on my team?
- How do I measure innovation on my team?
- Is there an innovation gap at my company or on my team compared to another?
- How should I institutionalize innovation on my team?
- Is my team accustomed to noting insights from clients or the competitive market to share and ideate around?



JULY SURVEY

80%

OF RESPONDENTS INDICATED THEIR FIRMS' C-SUITE ENCOURAGES INNOVATION

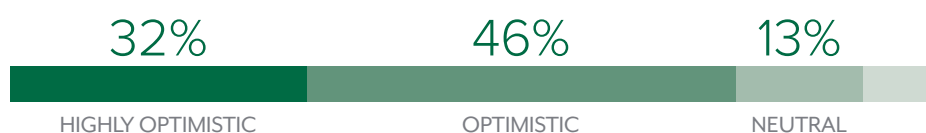
IV. EXECUTIVES ARE BULLISH ON ASSET GROWTH DESPITE COVID-19

Optimism remains high for distribution leaders. As of July 2020, more than 60% of respondents claimed to be either optimistic or highly optimistic that their firms will see AUM growth for the remainder of the year despite COVID-19. That number is down slightly from the 78% who were optimistic about their firms' growth trajectory back in February. What is somewhat surprising is leaders are even more optimistic about asset growth for 2021 – 82% of respondents are optimistic about their firms' AUM growth for 2021 despite the pandemic.



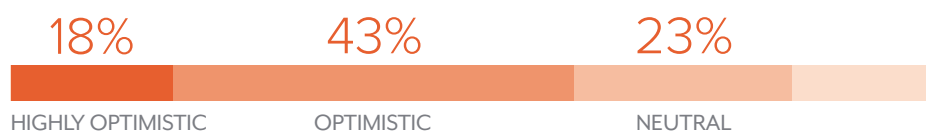
FEBRUARY SURVEY

HOW DO YOU FEEL ABOUT THE TRAJECTORY OF YOUR FIRM FOR 2020?

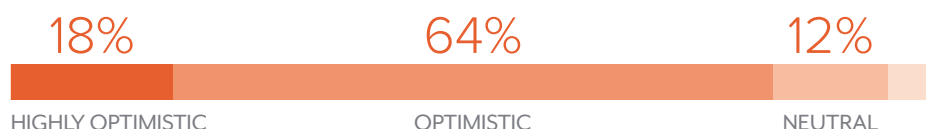


JULY SURVEY

WHICH OF THE FOLLOWING BEST DESCRIBES YOUR FIRM'S OUTLOOK FOR AUM GROWTH FOR THE REMAINDER OF 2020?



WHICH OF THE FOLLOWING BEST DESCRIBES YOUR FIRM'S OUTLOOK FOR AUM GROWTH FOR 2021?



Optimism about future growth directly impacts talent decisions. If a firm's assets are increasing and revenue is climbing, then the likelihood of any significant layoffs is reduced, and new job creation is a possibility. This is great news given so many firms have had to reinvent their business models and distribution organizations to remote-only operations.

To that point, we have already seen firms re-architecting their businesses to address the changing nature of the industry. We expect that trend to continue. More positive news is that leaders were encouraged about the resiliency and adaptability demonstrated by their teams despite unprecedented operational disruptions caused by the pandemic, as noted in the survey comments.

V. SUCCESSION PLANNING: LARGER FIRMS REMAIN A STEP AHEAD

One encouraging finding from our research is that many Asset Management firms are taking succession planning seriously. In July 2020, we asked respondents if there was an increased sense of urgency about succession planning at their firms due to the pandemic, and 80% said no. However, numerous respondents who replied “no” commented that they replied “no” because their firms had already addressed succession planning before the pandemic. This is consistent with a finding from our February 2020 survey that 58% said their firms made meaningful progress identifying next generation leaders in 2019. Similarly, an additional 58% said moving next generation talent into leadership positions was either “extremely important” or “very important” at their firms.

FEBRUARY SURVEY

58%

SAID THEIR FIRMS MADE MEANINGFUL
PROGRESS IN FINDING NEXT
GENERATION LEADERS IN 2019



Although larger firms have focused on succession planning, many smaller to mid-size firms we’ve worked with have not. For smaller firms, the pandemic has created an all-hands-on-deck environment. Unfortunately, that leaves little time for other issues such as succession planning.

“AS A BOUTIQUE FIRM, WE ARE MORE FOCUSED ON SURVIVAL THAN SUCCESSION PLANNING RIGHT NOW.”

- SURVEY PARTICIPANT

Because of the health risks to leaders from COVID-19, succession planning is more important than ever. Transparency about this issue has become non-negotiable since the pandemic began. Failure to clearly address succession planning questions from shareholders, clients and employees will be akin to directing them to the exit door.

“COVID-19 IS A GOOD REMINDER TO MAKE CERTAIN SUCCESSION PLANS ARE UPDATED REGULARLY.”

- SURVEY PARTICIPANT

Succession planning is fundamental to the long-term sustainability of an organization. Firms, both large and small, should inventory their management teams to determine when their senior leaders may want to retire. Simultaneously aligning retirement timeframes with development plans for the next generation helps to create a seamless succession planning process.

ABOUT KATHY FREEMAN COMPANY

Founded in 1992, Kathy Freeman Company is a woman-owned and operated national, retained, executive search firm. A strategic advisor to the investment industry, we have become the go-to partner for firms seeking to hire top-tier executive talent to power their growth. Our unparalleled understanding of the investment industry, consultative approach, experience, judgement, and network of relationships has earned us a reputation for excellence. We have been recognized as a Forbes Top 250 Executive Recruiting Firm.



Dedicated To
The Perfect Fit

Kathy Freeman Company takes inspiration from its clients who, like our team, are focused on process, discipline, and a commitment to excellence. Our search work is based on a customized methodology developed and refined for over 25 years to create the optimal fit for each client. Over 99% of our engagements have resulted in a successful placement – a unique and exceptional track record across the executive search industry. Our process-driven methodology produces well-executed searches and a successful return on investment for our clients.

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talent to help fuel
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