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2019 Industry Trends Survey: Asset Management

- **Recruiting/Retention Strategies**
- **Uses of Technology**
- **Diversity of the Workforce**

2019 Asset Management Industry Trends Survey

Overview

As a follow-up effort to our 2018 industry benefits benchmarking survey, we have frequently been asked by our clients to provide an update on industry trends and best practices relating to several top-of-mind topics:

- Recruiting and retention strategies
- Uses of technology
- Workforce diversity

Each of these topics has received considerable industry attention in recent years, whether by industry press or as part of asset managers' strategic planning processes. In the midst of an era where the pace of industry change continues to be amplified, managers have increasingly realized that these ideas have important future implications for their businesses and have been attempting to make significant progress in addressing them, some with greater success than others.

As industry margins continue to experience compression and many active managers remain challenged by outflows to passive products, active firms' leadership teams have responded by being more proactive in cutting costs, seeking new efficiencies, and focusing on areas of innovation or differentiation for their businesses. Aside from introducing a host of new products (e.g. multi-asset, alternatives, income-oriented, etc.) meant to diversify their businesses, managers have implemented entirely new approaches to solving resource challenges and servicing their clients. Industry leaders see these new ways of thinking as critical to safeguarding their firm's future success, particularly in light of the heightened consolidation within asset management.

To address these interest areas, we conducted phone interviews with 32 asset managers during the third quarter of 2019 to understand what approaches, progress, and trends exist on these fronts. Similar to last year's survey, we sought to interview a wide range of firms by asset size and location to ensure that all types of firms were represented. We would like to thank each one of the firms that participated in this year's effort as we could not produce these insights without your valuable input.

We hope you find the information helpful in your ongoing efforts.

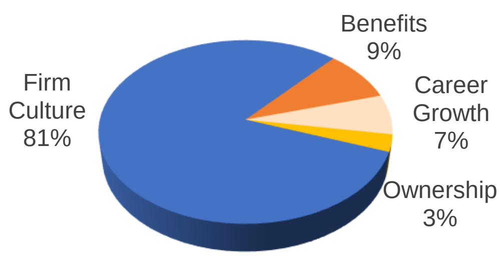
Exhibit 1
Number of Participating Firms by Region and AUM Level

AUM Level	Number of Firms
$5-15 billion	6
$16-25 billion	12
$26-50 billion	9
Greater than $50B	5
TOTAL	**32**

An Evolution in Recruiting

Recruiting has gradually become an area where asset managers have attempted to focus their efforts on distinguishing themselves from their competitors. In many cases, asset managers have adopted totally new approaches to recruiting in an effort to attract quality talent in a highly competitive marketplace. To better understand this topic, we asked all 32 firms surveyed to describe any changes in approach and what one aspect about their firm set them apart in attracting new job candidates. 81% of firms surveyed responded that they felt organizational culture was a key point of differentiation for their firm. Many firms also shared that they have made a point to create a deeper, more personalized connection with job candidates from the get-go by understanding their career goals and preferences, with the hopes of ensuring cultural alignment from the start. The importance of culture is one that has been echoed again and again by candidates across our network, even more so among the younger generation of industry professionals with less than 10 years of experience. As such, we feel this topic will remain a key consideration and area of growing distinction for asset managers in attracting new talent and fostering greater longevity within roles.

Exhibit 2
What Aspect Sets Your Firm Apart in Attracting Talent?



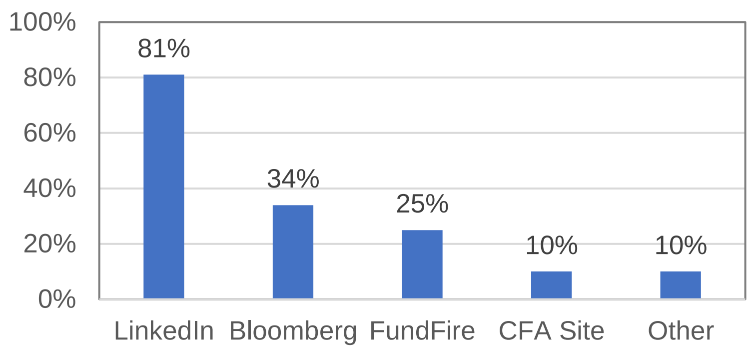
An additional question we posed to managers on the recruiting side was to understand if they had challenges in recruiting talent given tight labor markets. 63% of firms reported such challenges, particularly for specialized, high-demand roles such as data scientists, investment writers, and other client engagement positions (institutional salespeople, digital marketing, investor relations). Overlaying our recent recruiting engagements, we found that experience echoed the same from a recruiter's perspective. Throughout our interviews, there was clearly a prevailing assumption that industry consolidation and headcount reductions at several well-regarded firms throughout the country had led to an abundance of talent being available for hire. While there has been an uptick in headcount reduction activity, we found that many candidates who found themselves displaced tended to locate new jobs quickly in most cases given their transferable skill sets. Also mentioned as a challenge by several firms were campus recruiting efforts and the ability to meet recruiting goals on that front.

Interestingly, our conversations with managers lacked substantive discussions regarding one of the fastest-growing demographics of the job candidate population which is those individuals with more than 25 years of industry experience. Even though these individuals are among the most experienced available, the consensus view reported by candidates is that potential employers tend to either a) associate their experience with a bygone era of investing, or b) raise questions about potential career longevity. Interestingly, our data indicates that in many cases these candidates offer greater flexibility as far as the type of role desired and compensation level than many of their less-experienced peers. To us, this candidate population feels like an untapped opportunity for asset managers to consider going forward given their experience level and ability to make an impact from the start.

Reducing the Cost Per New Hire

Within a backdrop of continuing industry margin pressures, there has been a clear effort over the past few years to reduce costs paid for third-party vendor relationships of all types, with recruiting firms viewed as no different. In an attempt to address the issue, managers have instituted new approaches for sourcing new employees. First, there has been an increased effort to internalize more of the recruiting function regardless of firm size. Several larger firms (AUM $50B+) surveyed noted that they have hired additional recruiting staff, and virtually all managers (94%) regardless of size reported increased use and reliance on online recruiting tools in some form for recruiting new candidates. In addition to using their company's website, the most commonly-mentioned were Linkedin's job postings service and talent-sourcing tools in use at more than 80% of firms. Other services mentioned to a lesser extent included Bloomberg and industry publications such as Fundfire/Ignites, the CFA website, and Pensions & Investments. The good news is that using such services has resulted in significant cost savings, with many firms approaching 50% or more of new hires sourced internally. The volume of candidate resumes received had also increased considerably. Many of the firms indicated success in recruiting for certain business units, particularly lower-level hires within sales, marketing, and back-office functions. Investments, research, and more-experienced client engagement positions have continued to prove more challenging for internal sourcing efforts.

Exhibit 3
Recruiting Tools in Use at Asset Managers



While adding services such as LinkedIn has created new opportunities for managers, it has also led to several important challenges that are likely to become more pronounced in our view towards future recruiting efforts. First, many survey respondents noted that although Linkedin had produced a high volume of resumes, virtually all reported that the quality of those candidates delivered was disappointing. In fact, several noted that the high volume of applicants coupled with the lack of quality candidates was a continuing time/resource challenge and frustration for them.

This feedback has been echoed often by prospective job candidates throughout our search engagements, with candidates reporting that they are feeling overwhelmed (or more aptly described by some as feeling "Linkedin to death") due to the high volume of requests that they have been receiving from asset managers directly in addition to third-party recruiters. For many candidates, this constant barrage has led to them to stop responding to LinkedIn requests altogether. At the same time, there has been an uptick in candidate feedback expressing frustration with both HR personnel and third-party recruiters that do not have a clear understanding of a) the day-to-day needs of the role they are representing (i.e. going beyond what is written in the job description), and b) how the candidate's background/experience aligns with the role. This feedback has been especially pronounced with more experienced candidates which left us curious about a potential correlation with asset managers reporting internal recruiting challenges for more experienced roles. Other Linkedin observations collected from client and candidate feedback include:

i) The reliability (a.k.a. staleness factor) of data listed in LinkedIn profiles given no requirement to update them
ii) The prevalence of asset managers monitoring employees' LinkedIn profiles/use
iii) Linkedin's limited coverage of the total candidate population
iv) The preponderance of active job-seekers versus those candidates that need to be "recruited"

If this trend persists, asset managers may find themselves with a gradually diminishing candidate pool available for certain roles through such tools and more reliant on their firm's website, social media, employee referrals, and third-party networks or consultants to fill positions.

The Use of Technology

Technology use across the industry has increasingly become an area where managers have sought to differentiate themselves. It is regarded widely as both an opportunity and threat depending on who is being asked. We interviewed managers to understand what technologies they have recently introduced or plan to introduce that are shaping the future of their businesses, whether within the investments area, back office, or other business units. On the investments side, firms are seeking to incorporate new data sources and data science into their processes to mitigate portfolio risk or develop a more well-rounded view of a potential investment opportunity than ever before. For example, when evaluating individual companies, no longer are firms relying on financial statement analysis or company management meetings alone, but now shaping their investment decision by incorporating additional sources of data on a company. Examples cited were geospatial analytics from vendors such as Orbital Insight and website scraping services that collect data from Glassdoor, Amazon and other online sites for reviews left by customers or employees. This information is then analyzed for potential changes in sentiment or business results that may not be reflected yet in a company's results. Several firms also mentioned greater use of automated programs that run daily textual or keyword-based searches to create a real-time view of news flow on a given company.

Outside of the investments area, data visualization and CRM (customer relationship management) were both mentioned as areas of priority and expansion. A number of asset managers have either initiated or considered large-scale projects to take data from disparate internal sources such as client account data, portfolio holdings, CRM data, and other sources to produce a holistic view of each client relationship. Companies then mine that data to understand how often they are interacting with a client as well as the form and substance of those interactions. Salesforce's CRM solution was the clear favorite within our survey, in use at roughly 70% of firms. The vendor's recent acquisition of Tableau's data visualization platform, which many industry firms also use, was widely-reported as something managers are excited about and actively monitoring for new developments.

In addition to utilizing client information as an evaluation and retention tool, asset managers are also using that input to create new products or introduce additional product features. Through a deeper analysis of the client's experience on all fronts, the asset manager can develop a better understanding of a client's needs which then drives a proactive discussion regarding additional investment solutions the client may want to consider. This is viewed as a key value-add item in fostering strong client relationships and is likely to become even more pronounced in an era of ever-increasing competition.

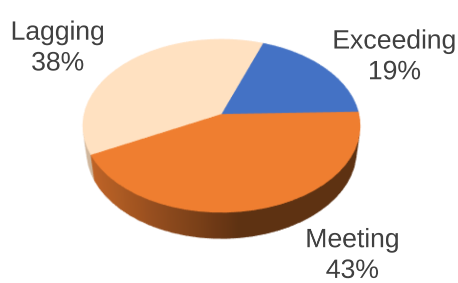
Finally, nearly all managers identified process automation as an area of enhanced technology spending and resources. By automating repetitive tasks, firms hope to reduce errors and free up personnel to concentrate on more impactful projects. Naturally, a growing concern is that the introduction of such automation will gradually find its way to other aspects of an employee's role over time, possibly replacing humans at some point. Thankfully, our respondents were quick to point out that while they feel technology can create new efficiencies in some areas it was unlikely to fully override human intervention, particularly in investment decisions or client-facing work.

A Progress Report on Diversity

Other than the fight to remain relevant, perhaps no single area has received more industry attention in recent years than the diversity of the workforce. Asset managers, similar to other industries, have realized the importance and benefits of introducing different backgrounds into the workplace and have embarked on initiatives to broaden diversity over the past several years. This has included establishing diversity goals within the hiring process, instituting diversity councils and officers to oversee/promote in-house initiatives, and expanding campus recruiting efforts among other strategies. Many asset managers also now report in-house diversity figures as part of the client due diligence process given it is a standard question asked by consultants and plan sponsors alike.

Having spent the past several years building out these diversity-focused efforts, there has been budding interest from managers to understand what the broader industry experience has been at other firms. To address this, our survey approach focused on assessing how asset managers feel their firm has performed relative to the original milestones/goals that were established when they introduced their diversity program. With that in mind, we asked each firm surveyed whether they felt their firm was exceeding, meeting, or lagging those goals currently. The good news is that virtually all firms reported that they have made measurable progress on addressing diversity, albeit with differing levels of success. As shown in Exhibit 4, 62% of respondents reported that their firm was either meeting or exceeding those goals, while 38% reported that they were lagging.

Exhibit 4
Reported Progress Relative to Original Diversity Goals



We did not attempt to benchmark the methodology of each firm's diversity targets, so it is difficult to assess the aggressiveness of such efforts. For example, some firms have implemented a holistic, across-the-board approach to increasing diversity throughout their firm, while others have pursued a more targeted approach to address specific job functions or business units where a lack of diversity has been more pronounced. Respondents note that in many cases hiring more women and minorities had resulted in new approaches and ways of thinking, whether as part of the investment process or in other areas such as client service, business development, or operations. In our view, incorporating new backgrounds and perspectives within the industry workforce will become even more important in attracting/retaining clients and employees in the years ahead as clients continue to seek differentiated products and services that will help them achieve their investment needs.

Although overall industry progress on diversity initiatives appears relatively good, several challenges were also highlighted that have been impacting managers' ability to execute on such programs. Among the more commonly-cited challenges was the lack of a sizable applicant population of female or minority candidates for selected positions, regardless of the experience level sought by the firm. To address this, managers have targeted building relationships with specialized industry networks to reach more candidates, either directly or through third-party consultants. These networks include numerous minority-focused financial services associations and female-focused investments groups. Several respondents also mentioned increased efforts to broaden their campus recruiting program to include additional schools with more diverse student populations, while also proactively promoting financial services careers to women and minorities as part of that expansion. Another contributing factor cited in attempting to recruit more minority employees is a firm's location. Firms in certain regions reported excellent progress in attracting female applicants, though had challenges recruiting either Hispanic or African-American candidates. In an effort to mitigate this challenge, firms have expanded their search parameters to include more cities outside of their traditional recruiting areas. An additional topic within diversity that has been noted as a continual challenge is identifying minority candidates to fill board seats. This is thought to be attributable to the combination of a high level of competition across the industry to fill such seats as well as a smaller candidate pool that possesses the preferred level of industry leadership experience for such positions. In our view, this challenge is likely the result of a timing gap that should naturally subside in the coming years as more women and minorities are promoted into senior management positions or consider careers within financial services.