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An Industry in Flux

# Global Talent and Hiring Patterns in the Asset Management Sector

by Chad Astmann, Steven McCrindle and Andy Smith

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# Global Talent and Hiring Patterns in the Asset Management Sector

Asset management firms faced an array of formidable challenges in 2011. Market volatility. Low returns. Complicated products. Heightened regulation. New markets. Investor uncertainty. Every aspect of talent acquisition in the asset management field has been affected by these factors.

This piece lays out those challenges and details how asset managers and their clients have been responding. Wherever possible it anticipates the talent supply-and-demand issues firms will face in the year ahead. It looks at the industry from four perspectives: leadership, distribution, asset classes and infrastructure. All are examined in the context of the current financial upheaval and through the lens of Heidrick & Struggles' team of experienced asset management experts.

## Key themes

Asset management firms are no longer trying to be all things to all clients. Now more than ever they require strategic business leaders who are willing and able to decide which markets, products and geographies to focus on, and who are capable of breaking with the past when necessary and taking calculated risks in developing and emerging markets.

The growth of Asian, Middle Eastern and Latin American markets is high on the agenda for most firms, but assembling management teams with experience and successful track records in those markets is proving challenging for many. Talent on the ground remains thin and turnover at the leadership level is high, particularly in Asia.

Most asset management firms now believe it is imperative to recruit business development professionals and leaders with strategic capabilities in the institutional channel. However, qualified individuals are few and far between, presenting a major supply-and-demand problem for firms with anything less than a premier brand and business model.

Firms are increasingly seeking to rebalance the "home bias" of their equity product suites – and the manpower they allot to them – with their global and emerging market products. This is a long-term process, leaving fewer opportunities in domestic products for firms that are not top performers or franchise "names."

Within fixed income, emerging market debt continues to be the hottest of all asset classes from an allocation and talent perspective. Many firms that missed the boat in this area and lack franchise strength are seeking external senior talent to make up for lost time. However, the talent pool is very small and highly sought-after.

Multi-asset investing is back with a vengeance, along with the resources and hiring to support it. Many firms have hired senior investors and business leaders, and as multi-asset investing turns from an art into a science, the scale of the investment team and the business support it receives are growing apace. Whether firms can maintain profitability in this area remains to be seen.

Global demand from institutional investors and sovereign wealth funds for CIOs and asset allocators capable of managing investments directly and through external managers on a multi-asset basis has reached a new high and remains buoyant going into 2012. However, asset allocation was becoming a dying art in the years before the credit crisis, so talent with a long-term record of outperformance is scarce.

The high levels of operational / functional hiring seen in previous years abated in 2011, but we foresee a resurgence of activity in this area in 2012, particularly in the risk and compliance functions.

Boards are looking for more diversity of background and experience among their members. Not surprisingly, there is high demand for members with experience in mutual fund regulation and risk management.

## Senior Leadership

### Boards

The boards of many asset management firms continue to be in flux.

In ordinary times, individuals stepping down from executive positions would take appointments as non-executive directors. But increased regulation has meant greater time commitment, greater liability and more pressure to keep current in a changing market environment, making the non-executive's role more difficult.

Even with modest increases in remuneration, many senior individuals prefer to leave the industry altogether rather than accept appointments as non-executive directors. The result is a shortage of candidates for those positions.

When executives do transition from executive positions to non-executive board roles, especially in the asset

management industry, it often is difficult for them to maintain sufficient distance from the firm's day-to-day operations. Constructive engagement between executives and non-executives is an ongoing challenge, Directors need to advise rather than "tell."

Another factor affecting board make-up is the increased emphasis on risk. Firms now seek people who can bring extra weight to the discussion of risk from both an executive and non-executive perspective.

Asset management firms continue to lag in board diversity, with insufficient talent in the pipeline to rectify the situation in the medium term. Another critical issue for many asset managers is succession and management development. Some firms with more robust governance structures are starting to take this issue more seriously, particularly multi-boutique organizations with shareholder obligations.

Finally, even as the asset management business globalizes, board composition in most cases remains heavily biased towards the firm's country of origin. Meaningful change is expected on this front in the next few years.

### Leadership Trends

Most asset management firms are no longer trying to be all things to all clients. They want strategic business leaders who can decide which markets, products and geographies to focus on and who are capable of taking a hard look at the new realities, breaking with the past and taking calculated risks in developing markets.

Interactions with boards, shareholders, owners, key clients and regulators now absorb much of a CEO's time. Firms need strong leadership teams to fill the resulting operational vacuum. Global experience – particularly in light of the growing Asian, Middle Eastern and Latin American markets – is a major consideration as boards and CEOs assess their managerial bench strength.

In the last year, asset management firms have particularly focused on global distribution leaders, but other functions such as investment management also are coming into focus.

It is tougher than ever for a single multi-talented leader to run the investment function. As a result, firms are beginning to distinguish between leaders with the skills to improve investment performance and maintain

# Leadership in Asia

The growth of the Asian market has the full attention of asset management boards and CEOs. Having no Asian strategy is not an option; the wrong strategy is costly. Firms are therefore focused on putting the right strategy and leadership in place.

Over the past 24 months we have seen leadership changes at more than half of the top 25 asset managers in Asia, including BlackRock, PIMCO, BNY Mellon and JP Morgan Asset Management. And with new entrants setting up in the region at an accelerating pace, turnover at the CEO level will continue.

The lack of bench strength for top positions in Asia is a serious issue for asset managers. More often than not, CEOs are forced to look outside their own firms for successors, as BlackRock and PIMCO did recently. In other cases, they may transfer a trusted internal leader from another region to Asia, as HSBC Global Asset Management and JP Morgan Asset Management have done.

Some firms are even seeking talent outside the asset management field, from industries such as investment banking, where senior executives may be looking for more stable long-term opportunities.

morale and organizational culture, and leaders capable of evolving the franchise, product suite and front office operations.

CEOs and executive management teams still need to get better at bringing out the collective best from their investment and distribution teams.

## Global Distribution

The pace of hiring for global distribution talent was fast and furious in 2011, particularly in the first half of the year. As firms seek to expand globally, senior executives with experience working in two of the three major regions – North America, Europe and Asia – have been in high demand. This is especially true at the vice president and director levels, where asset-gathering skills and a flair for managing long-term client relationships have become the criteria by which distribution specialists are measured.

Talented candidates are now highly discerning about moving to a new company, carefully weighing a firm's brand and reputation, ownership structure, product offerings and track record before signing on.

The demand for talent has led to some title and compensation inflation, at least among smaller firms. While first-tier asset managers tend not to play that game,

smaller, less-established firms are often driven more by hope than rational expectation and can end up paying handsomely for second-rate talent.

Passive products have been growing in importance on the major asset management platforms, so many sales professionals are being asked to focus on those products. However, the lower fees that passive products command provide limited incentive for distribution professionals to sell them, especially if they are compensated on a commission basis and have the option to sell other products. The resulting trend is for distribution talent to be attracted to asset managers that offer a wide variety of products.

## Geographic Trends

Hiring was well distributed across North America in 2011, with especially strong activity in Chicago, New York, Boston and on the West Coast.

With institutional investors and consultants insisting on performance, firms are broadening their channel and geographical coverage to attract new assets.

For example, US firms based in the East Coast are putting sales staff on the West Coast. But with high demand for a limited pool of talent, many firms have struggled to find quality candidates.

In Latin America we have seen a focus on the sovereign wealth fund (SWF) channel across the continent, and on acquiring or building distribution capabilities in Brazil. While it may take a long time to pay off, asset managers are asking themselves if they can afford not to invest in the region.

In EMEA, hiring activity has focused on UK institutional sales and senior consultant relations positions; the Nordic countries, Netherlands and the Middle East have seen considerable demand in the institutional channel; and steady levels of hiring and upgrading continue in countries such as Switzerland, Germany, France and Italy.

Regional institutional sales leaders continue to be sought in the Asia-Pacific region, particularly in North Asia – no surprise given the growth of the institutional market in that region. Investable assets in Asia (excluding Japan and Australia) have doubled over the past five years.

With more institutional asset managers entering Asia, sales leaders with a track record of building and managing high-performing regional sales teams are being hired away from established players into regional CEO roles.

## Company Trends

We have seen increased hiring activity by multi-boutique firms seeking to capitalize on the strong performance of their underlying affiliates by expanding their scope of distribution.

New entrants along with established firms that have lagged in the globalization process are now viewing the US, Europe and Asia as strategic growth areas. Even firms from emerging markets in Asia and Latin America are seeking distribution in mature markets where clients and consultants remain hungry for access to emerging market products.

While they continue to institutionalize their client base, alternatives firms – including major players – are finding it more difficult to lure top institutional talent away from more traditional or full-service firms.

As firms with “captive assets” (either in-house or on long-term insurance contracts from former owners) continue to seek diversification and higher fees, they are trying to build more robust third-party investment capabilities and distribution teams. This often means transferring the capabilities they have developed managing insurance

## SWFs in Focus

Sovereign wealth funds have been among the most active recruiting engines in Latin America, Canada, the Middle East and Asia over the past year. The move to bring assets in-house coupled with a need to keep pace with changing investment trends has spurred many SWFs to bring in talent from around the globe.

SWFs offer a stable asset base, a professional work environment and career growth prospects, making them increasingly attractive to top talent. Additionally, as opportunities remain thin in developed markets, top talent unable to find stable employment there are willing to explore relocation to areas that were less attractive in the past.

### Latin America

Required to accumulate more reserves, central banks have become very conservative about investment. The result has been decreased activity for asset managers. As markets stabilize, however, central banks will start once again to diversify their reserves among other asset classes besides U.S. treasuries or global fixed-income products.

As they seek to acquire expertise in other asset classes, central banks will start hiring managers to educate them and manage their assets. And creation of SWFs in such countries as Colombia, Peru and Panama will bring more opportunities for asset managers in the next five years.

### Asia

As SWFs in Asia grow in size and sophistication, some are outsourcing to external fund managers while others are bringing more assets in-house. Most mandates are likely to be in asset classes such as alternatives and other niche products that SWFs cannot manage themselves.

# Insurance Asset Management

Like other investors, insurers are looking for viable investment strategies in an uncertain market with interest rates hovering near zero. They are considering shifts in asset allocation, as the historic approach of allocating 90-95% to traditional fixed-income products is not likely to meet future liability requirements. However, their desire for increased returns is balanced with the realization that preserving capital is fundamental for the organization's financial health.

The possibility of more aggressive asset allocation is on the table, including allocations to more esoteric asset classes and greater investment in alternatives such as hedge funds and real estate. Insurers also are looking overseas for investment opportunities. In that context, many insurance investment managers must decide whether to execute these sophisticated investment strategies themselves, or outsource them to an external asset manager.

Research shows that nearly two-thirds of insurance companies have outsourced some or all of their investment management, bringing total assets under management in the US insurance industry to nearly US\$1.75 trillion. This trend began largely in reaction to the 2008 credit crisis but has gained momentum with market volatility and depressed interest rates.

Among the larger firms that provide asset management services for insurers (BlackRock, Deutsche Bank and Wellington being the top three), growth has largely involved expanding global distribution and client services. We also are seeing a trend toward selective outsourcing, with insurers choosing managers to serve as sub-advisors for specific mandates.

Nevertheless, the need for strong senior leadership and internal capabilities remains.

assets into similar institutional client areas, such as liability-driven investment and asset liability management. Many such firms are seeking senior institutional leaders or individual producers to help them do so.

## Global Distribution Channels

### Institutional Channel

There has been consistent hiring activity for senior consultant relations talent in the US and Europe as firms recognize the importance of this function in improving institutional hit rates. Encroachment by major hedge funds and alternatives firms has driven up demand for this talent. To fill the gap, a number of asset managers are cross-training sales professionals and hiring former consultants to staff the function.

Client portfolio managers/investment directors, especially those with multi-asset-class and emerging market debt and equities experience, are in demand around the world. Activity also continues within the insurance channel as firms seek to capitalize on the investment outsourcing trend.

Sovereign wealth funds remain a major focus. Regional business development professionals with a strong network, technical skills and a successful record serving this client group in the Middle East, Asia and Latin America have been in considerable demand.

### Wholesale Channel

In the US there has been very little hiring or turnover among senior intermediary distribution leaders, except for the RIA and defined contribution investment-only channels where management talent and senior individual contributors have been in demand. Late entrants to the ETF market have also added distribution talent to their leadership and wholesaler ranks.

Hiring activity in wholesale distribution was increasing across EMEA going into summer 2011, but the macro environment has had a negative impact since then and remains a major factor at the start of 2012.

Demand for retail distribution professionals in Asia has been relatively weak in the past year – no surprise given the multiple challenges facing asset managers in the region.

# US Institutional Investors in Focus

With returns low over the past few years, many institutions have begun bringing assets in-house to control risk, limit fees and gain beta returns more efficiently. While the in-house movement has focused on equity, it has also included fixed income and real estate.

With low returns projected to continue, there has been much discussion about actuarial assumptions for defined benefit retirement plans. The range of projected returns that pension funds need to make to meet liabilities has been hovering between 7.5% and 8.5%, but is trending lower. This is not good news, as it will cause pension costs to rise at a time when corporate bottom lines are growing very slowly and public entities have seen reduced revenues.

Leadership issues continue to plague the public retirement plan arena. Turbulent markets and increased board scrutiny have led to changes in the chief investment officer's role.

Other institutional investors such as endowments and foundations have discovered there is significant talent available in public plan investment teams and have been recruiting from it. At the same time, we have seen movement within the sector itself. Public plans in Virginia, Maryland and Wyoming have new leaders who either came from another public plan or were promoted into the position. The number of recent promotions suggests that these plans have robust succession planning programs. It also underscores the depth of talent in the sector.

Endowments and foundations also are seeing significant turnover in investment leadership. While the normal pattern of one university recruiting from another continues, some recruits have come from the private sector as well. The charge to new CIOs is to generate above-average returns while connecting investment strategy to the school's needs. This has brought the risk management function into focus, leading to several recent searches for chief risk officers.

Many asset managers are struggling to make a profit from their onshore businesses in China, Korea and India in particular. While some firms are considering pulling out of China and India, others are coming in. Overall, competition is expected to increase.

On the other hand, asset managers in Japan, Hong Kong and Taiwan with strong retail distribution capabilities and the right product offerings are performing very well. And a number of firms are building out their capabilities in Southeast Asia from a base in Singapore to capture the strong growth of these small but developing markets.

As asset management firms seek to diversify their distribution channels in Asia to include private banks, insurance firms and high net worth individuals, we expect to see an increased need for retail sales professionals with relationships in those channels.

## Distribution Skills

The theme of the "old guard" vs. the "new breed" of sales and distribution professionals continues to play out at all levels – individual contributors as well as management – as clients demand more trust, transparency, reporting and value-added service.

Genuine investment acumen is now a prerequisite, especially in the institutional channel, but more and more in the wholesale and intermediary channels as well. With clients, consultants and investment firms all talking the language of "solutions" over products, distribution professionals are called upon to have detailed technical discussions about liabilities and risk/reward dynamics along with broader conversations about asset allocation across the risk spectrum.

Asset managers expect better performance, more accountability and greater versatility from their institutional sales teams. They are keen to hire institutional sales professionals who can raise assets across all institutional channels, not just one or two. And they want relationship managers who not only understand products, but can sell them.

As fundraising becomes more challenging, firms have focused on retaining assets, especially toward the end of 2011 when markets were so volatile. They expect sales professionals and relationship managers to over-communicate with clients and raise the level of service they provide. Large asset managers are placing added importance on cross selling to existing clients, with some firms introducing or increasing commissions for doing so.

## Asset Class Trends

### Fixed Income

Dramatically low yields across most fixed-income products and the ensuing frustration from retail and institutional clients have pushed asset management firms to widen the risk profile of many of their products. Many firms are actively marketing their long/short credit products and converting their high-yield products into “unconstrained” branded entities. Unfortunately, portfolio managers who can retool their style quickly to suit current investor demand are in short supply.

Although the equity market has borne the brunt of the shift toward passive products, the fixed-income industry has felt the shift as well. Investors are moving to lower-cost options where possible and counting on exchange-traded funds (ETFs) to help minimize volatility and inflation risk, rather than relying on active managers to do the job. Given the pressure on leading ETF platforms to churn out new products rapidly and continually, there is high demand for talent who can identify what investors want and develop new models that satisfy investor needs.

Demand for customized liability-driven investing (LDI) is on the rise.

Fixed-income firms that have upgraded their talent and infrastructure can now compete with the top players in the LDI space.

## EMD in Focus

Emerging market debt continues to attract capital. A small number of asset managers with strong EMD track records are experiencing impressive growth in assets under management.

Eager to capture some of that capital, established franchises are beefing up their existing teams. Newer participants are seeking to hire senior portfolio managers and team heads to ensure they don't miss the boat on this asset class.

Because the bulk of the capital has flowed so far to a small number of houses, EMD experience is concentrated within a small talent pool. As a result, competition for that talent is strong, hiring activity is robust and compensation has increased dramatically.

Key trends include:

- Greater product specificity due to client demand and managers' desire to grow by offering more differentiated products (for example, products based on inflation-linked bonds or local corporate bonds).
- Building research capability for specific regions and across emerging market corporate bonds and currency.
- Increasing convergence and overlap with “developed world” investing.
- Growing pains as managers seek to build larger teams and manage larger pools of capital, sometimes across multiple locations.

Firms are looking for LDI distribution professionals who have sophisticated investment acumen, deep and long-term relationships with consultants and chief investment officers, and a working knowledge of product development. However, successful professionals in this area tend to be satisfied with their current situation and are not inclined to leave.

Given macro events over the past five years, bond portfolio managers are paying more attention to global dynamics. In organizations that do not have a macro strategist or economist, portfolio managers may find themselves at a disadvantage. Consequently, we expect portfolio managers, strategists and economists who can bring a macro view to fixed-income investment will be in high demand in 2012.

Emerging market debt (EMD) continues to be the darling of the fixed-income world, offering high yields and growth in a market that has so far been relatively stable. EMD has been a supplemental product to low-yield developed-country bond portfolios. Again, talent in the EMD arena – analysts, portfolio managers and especially combined teams willing to change firms – is scarce.

## Equity

Most of the industry is taking a wait-and-see approach to US domestic equities, as growth looks anemic, but equity investors see few other attractive asset classes. US domestic equities still remain a profit center for large platforms and the core offering for mid-sized independent players.

Because it is so difficult to differentiate large-cap product offerings from one firm to the next, investors are choosing portfolio managers who exhibit a high degree of conviction and success. Talent in the large-cap US equity arena seem open to new opportunities, but given the lack of demand, most are waiting until the first quarter of 2012 to see what happens. Consequently, there is minimal hiring and movement in this space, other than replacement hiring.

Driven by the lack of interest in large-cap long-only products as well as decreased margins, some firms are focusing on long/short products to increase profitability, retain talent and stay relevant. Talent with long / short capabilities will likely be in increased demand as long-only

firms try to import, rather than convert, talent.

Small and SMID-cap US equity products performed relatively well through Q2 and Q3 of 2011. Aggressive investors are increasing allocations to this area as it offers one of the few glimmers of growth opportunity, given the relative safety of the US economy. Because of this interest, asset managers are hiring small-cap teams. These teams often comprise only two or three members – and have not been highly paid until recently. That gives firms the opportunity to pick up a team at relatively low cost.

Following the dramatic mistrust with which investors viewed the asset class in 2009, quantitative equities are now back in favor. Within this asset class we are seeing the highest demand (and need) for savvy investors who can communicate with clients and develop products.

There also has been growth in international dividend investing, with firms such as BlackRock, Fidelity, Newton, Schroders and others seeking to develop their regional and global income teams and make this an area to “own” in coming years.

Interest in emerging market equity products may have peaked in mid-2011, but investor demand continues. That may change, however, as investors worry about slower growth in Asia and instability in Eastern Europe and Latin America, coupled with poor performance in emerging market equities, likely point to an investment slowdown in this asset class.

No standard approach to managing emerging markets portfolios has appeared among US firms, so asset managers are using a variety of styles. Demand for emerging markets talent is focused on individual analysts and complete teams. Many existing teams need to increase analyst capacity in regard to Asia and, to a lesser degree, Brazil. Firms seem more inclined to bring in a team rather than to hire a single portfolio manager.

## Multi-Asset Class

Even as they streamline their investment teams and take a cautious approach to hiring, asset management firms have been developing their multi-asset capabilities in response to growing institutional and retail investor demand. Indeed, firms now treat the multi-asset class as a business or franchise, not just an add-on to fixed income or equities, and they are adding resources and talent to support it.

# Hedge Fund Distribution

Competition for fundraising professionals remained strong through the economic downturn and into 2011, with compensation for top talent returning to levels not seen since 2007.

Firms are looking for marketing people with the following attributes:

- Quantifiable record of raising capital from corporate and public pension plans, plus strong relationships with the consultants who serve these investors.
- Demonstrated loyalty and tenure
- Consultative approach, agility and depth of product knowledge; ability to talk to investors about broad asset allocation challenges as well as specific products.

More capital has been flowing to direct hedge funds, but the fund of funds industry still has a seat at the table. After a quiet period from 2008 to 2010, we saw a positive uptick in selective hiring for senior investment talent on the fund of funds side in 2011. However, the level of activity remains well below pre-2008 levels.

Most firms upgraded or added bench strength to their marketing teams in select areas at the individual contributor level, but far fewer senior leadership and strategic roles were available than in previous years.

No longer content with a “guru” or a few multi-asset specialists, top firms now seek larger, multi-faceted teams capable of managing billions of dollars of client assets with confidence and consistency. This is prudent while markets remain highly volatile and unpredictable, and we expect it to continue well into 2012.

Some key trends we have observed in the multi-asset world include:

- Less art, more science. Firms are demanding more sophisticated approaches to risk management and performance optimization, and embracing quantitative approaches, econometric techniques and more active use of derivatives.
- Role specification and segregation. Investment direction, asset allocation, fund management and research roles are becoming more differentiated. We are seeing increased specialization by region, asset class and discipline.
- Growing alpha/beta separation and increased use of passive tools and instruments in the context of multi-asset investing.

Additionally, there is a trend among institutional investors to hire internal strategic investment leaders, usually from the fixed-income world, who have macro investment credentials and are capable of managing relationships with external asset managers. We have observed this particularly in the US, where we have been working at a high level with a number of insurance firms, pension funds, endowments and foundations.

## Alternatives

Increased allocation to alternatives is on the rise in both retail and institutional channels among investors willing to take on more risk. To accommodate them, large and mid-size asset managers are looking for ways to develop their alternative product offerings (hedge funds, private equity, commodities, real estate, etc.)

Putting an alternative strategy in place can be pricey, however, given competition for talent and the high cost of integration and compensation. And existing alternatives firms are less willing than in the past to partner with larger companies to distribute their products. As a result, many

asset managers prefer to start by building small teams or acquiring them from other firms.

The past two to three years may have been a good time to acquire talent in the alternatives space, but over the next few years we are likely to see top talent going to the highest bidder. Aside from a few large firms, the long-only franchises will have difficulty attracting that talent.

Bottom line: organizations that already have substantial alternatives offerings and have initiated strategic plans for global, cross-channel distribution are in a good position. For those attempting to build an alternative investment capability from scratch, 2012 will be very tricky.

## Infrastructure

### Technology and Operations

Hiring in IT and operations was stagnant in 2011, due in large part to a lack of turnover. In fact, most fixed-cost reductions in asset management were levied in the technology and operations areas.

As firms come to grips with regulatory reform (Dodd-Frank, Basel III), the hiring taking place in operations has focused on candidates who understand the new requirements and can deal with regulators. In IT, most hiring has centered on data management (CDO), infrastructure (CTO) and security (CISO). Data management has taken on new importance following establishment of the Office of Financial Research within the Treasury Department.

E-commerce was a pervasive theme throughout 2011, with several firms hiring key players from outside the industry to run online and mobile platforms. Infrastructure is another area where several firms are in growth mode, particularly as they evaluate the use of cloud platforms.

One of the more notable slowdowns came in electronic trading, which saw a significant decline in IT spend and development from early 2010 to 2011. However, there continues to be a focus on trading technology and improving order management processes and performance, as well as on trade optimization.

Recent hiring at the senior level has focused on skills such

as marketing, change management and other high-visibility areas where the organization does not have appropriate talent in place.

Interesting developments have emerged regarding social media, which is seen as a powerful tool in asset and wealth management. Portfolio managers and analysts are using popular social media to communicate internally and externally. Distribution channels are clamoring for ways to market through these channels. It is unclear how firms will begin to hire and staff around this emerging trend.

### Risk Management

The link between risk management and investment performance has never been more critical. The result is an increased need for risk managers who can proactively identify performance trends and opportunities. And with newer asset classes presenting portfolio diversification opportunities, risk managers need a broader and more sophisticated array of skills than ever.

Firms are looking for risk managers who can influence portfolio managers through partnership rather than a dictatorial approach, and even provide them with investment suggestions. They also want risk managers with international knowledge and experience. For example, many large US pension funds have increasing exposure to international investments and emerging markets, and want their risk functions to reflect this trend.

Not surprisingly, firms are looking externally for risk talent or converting internal investment professionals to risk managers.

### Talent Management

After a year of volatile swings in asset levels, profitability and investment performance in the asset management industry, internal talent managers will be trying to manage employees' expectations about compensation.

Talent movement has been modest for about three years, but in the last quarter of 2011 talent managers were busy preparing both defensive and offensive succession planning strategies.

As they make plans, they must be careful about relying too much on the firm's brand to attract talent. "Blue chip" asset management firms that coasted for decades on

their reputations are feeling the impact of the diminished brand effect. Strong candidates are no longer interested exclusively in the historically top firms. Instead they look for stable firms with a strong asset base that offer opportunities to participate in growth and wealth creation.

As for internal talent, most large investment management organizations have increased their efforts in leadership training even as they try to rein in costs. Given the shifts in the industry, leaders groomed from within an organization will be crucial for driving new strategies. Failure to recognize and develop mid-level leadership talent will have significant negative impact on a firm's performance in 2012.

## Looking Ahead Talent Strategy For The Future

With few exceptions, Heidrick & Struggles' recent search assignments for asset management firms around the world have been to find talent who can evolve an existing process or initiate a new revenue line. Very few of our engagements are for "replacement" hiring. This trend appears to indicate a change in the asset management industry – a move away from the "all things to all clients" mode. Firms will have to become leaner and more proficient at managing fewer offerings if they hope to sustain strong, growth-oriented business models in the coming cycle.

With shrinking margins and uncertainty surrounding growth, each senior talent acquisition is a high-stakes hire. Firms that succeed in 2012 and beyond will align their talent acquisition strategy with their growth strategy. This requires a rigorous search and onboarding process that consistently includes all relevant stakeholders. Senior leaders must clearly communicate the firm's strategy and ensure that search committees have representatives from all areas of the organization. Hiring talent will require a search committee of key leaders from marketing, sales, technology, operations, risk, and trading.

This approach, while seemingly intuitive, is not often practiced. As a result, too many firms make hiring mistakes that could have been avoided. In a period of evolving business models and tight budgets, firms that put in the upfront effort to avoid such mistakes will be in a far better position to win. ■

## HEIDRICK & STRUGGLES

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## Global Asset Management Practice

The Global Asset Management Practice at Heidrick & Struggles consists of over 40 dedicated consultants in over 27 offices globally. The team functions as a coordinated organization designed specifically to deliver a full offering of human capital consulting needs from small, regional platforms to large multi-national investment managers. The Asset Management team excels at helping their clients achieve maximum talent acquisition and retention strategies across key positions in leadership, product and portfolio management, distribution, and infrastructure.

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