The road ahead for asset managers in Asia Pacific

The collective opinions of senior executives in the region.

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In April 2014 Korn Ferry conducted a region-wide asset management survey in Asia Pacific for the sixth consecutive year. The survey canvassed the opinions of over 400 senior executives, comprising regional CEOs, country CEOs, and regional and local heads of sales in institutional businesses. This paper summarizes the views of more than 100 participants who responded to the survey and the executive breakfast forum, chaired by Serina Wong, regional sector leader, asset management at Korn Ferry, which was subsequently held in Hong Kong in July 2014.

The main challenge that asset managers in Asia continue to face in 2014 is regulatory requirements. An increasing amount of scrutiny, inspection, and control on compliance remains, sometimes arising from regulatory requirements of local jurisdictions but also from global internal restrictions. These directly affect costs, business strategy, and ultimately the bottom line and growth. While a reasonable amount of control and compliance is needed to protect businesses and firms’ reputations, executives attending the breakfast forum agreed that the financial industry would greatly benefit from more trusting relationships between regulators and the private sector.

On the investment side, global equities were consistently chosen in the survey as the top strategy across most markets. However, during the breakfast forum and subsequent meetings with regional CEOs, it became apparent that asset allocation and alternative assets, such as private equity and real estate, have since taken over as the most popular asset classes.

When asked what they saw as their organization’s differentiating factors, around 21% of the respondents said investment performance was key. And indeed, for institutional businesses, a sound investment performance track record is widely understood to be the minimum entry ticket, though distribution capability outweighs investment performance in the retail market.
From the talent management perspective, total overall compensation for both CEOs and senior executives has generally increased, with 65% of sales executives earning above $500,000 today. Similarly, overall job satisfaction has increased. When asked to rate job satisfaction level between 1 and 5 (with 5 being most satisfied), the number of respondents who selected 5 increased from 17% in 2012 to 24% in 2013 and to 37% in 2014. Korn Ferry believes that a less hostile market environment in recent years is probably an influencing factor regarding this increase.

Brand name and company culture are high on the priority list when attracting and retaining talent. But breakfast forum attendees had several different ideas concerning where to find talent other than within the asset management sector. It was concluded that one should remain cautious around cultural and functional fit.
Aside from investment performance, balancing the needs of clients, staff, and regulatory compliance is key to asset management success. This balance can only be achieved by addressing the challenges posed by each component. Institutional clients are becoming increasingly sophisticated; additionally, they are building and strengthening their inhouse investment capability on both the public and private equity side. Staffing involves three main challenges: a tight regional talent pool; title or job inflation; and, in certain countries, there is the issue of language capability, which can make the job non-transferable, an example of which exists between Japan, Korea, and Taiwan. Finally, the regulatory landscape in Asia and worldwide is constantly in flux, and change creates uncertainty. Cross-border data management is especially a major challenge due to conflicting regulatory frameworks.

In this year’s survey, when CEOs were asked what their main challenges are this year, nearly a third stated “regulatory requirements” for the second year running. As Vincent Duhamel, head of Asia for Lombard Odier, explained, “Regulatory requirements are just a huge undertaking, and by some margin this is more important for private clients.”
How can a company increase efficiency to cope with new regulatory demands?

Organizations are certainly devoting more resources in terms of scrutiny, inspection, and control, and macro oversights, such as the Volcker Rule, have “immense implications” when designing products, according to Winnie Pun, head of Asia ex-Japan institutional business at Blackrock. There is a general consensus that compliance should not merely be a necessary evil for business but run deep within an organization’s culture. In terms of compliance, executives agreed on the need for nurturing the right mentality internally through training, rewarding staff, and honing the service delivery. “Integrity,” “reputation,” and “trust” were constant themes throughout the discussion. The impact of regulatory constraints means taking a more conservative approach to business management. Eleanor Wan, CEO of BEA Union Investment, believed staff are being “hired not only to make money but also to protect the business. Management needs to take the lead for a risk and compliance culture, and staff also need to support and comply.”

Faustina Chiu, regional head of HR at BNY Mellon Investment Management, noted the importance of high-quality compliance professionals in the current regulation-focused environment. However, building a compliance team is a major undertaking. Kerry Ching, managing director, Asia ex-Japan of AMP Capital, herself a former regulator, pointed out that the rigorous scrutiny of the industry is a direct result of the financial crisis. There is still a deficit of trust between regulator and industry practitioner, government, and private sector. Kerry reasoned that specialized, rigid work responsibilities in asset management firms means few people are able or have the desire to see the bigger picture. “Staff are only exposed to a very small part of the food chain, which makes it difficult to make a decision,” she explained.

Michael Buchanan, managing director, strategy at Temasek, looks at the regulatory landscape from a slightly different perspective: “In terms of direct regulations, we think of this as consistent with our own commitment to governance. As a company we do a lot of private deals and have a lot of flexibility in terms of how we do deals, but we have non-negotiable positions on governance and compliance that are important to us and hopefully also to the companies we invest in.”
How do you attract and retain talent?

Retaining and attracting the right talent has taken on a more central focus in 2014, in sharp contrast to a year ago. According to the survey results, 21% of CEOs and senior executives viewed this topic as the second most important challenge faced in Asia, up from 11% in the previous year.

To attract key executives and keep them engaged, brand credibility is important, along with succession planning, training and development, integrity, and transparent methodology toward pay and compensation. From a human capital perspective, Donnell Green, head of HR, APAC at BlackRock suggested firms should innovate and think about talent first, and then strategy, as the right people are best placed to drive a company strategy.

A strong work culture is a key attraction for high-caliber staff, argued Xiaofeng Zhong, CEO of Amundi Hong Kong & North Asia, and loyalty is only attained through hard work, refining goals, and managing expectations realistically. He voiced the need to best meet the needs of clients while also enhancing internal efficiencies, where staff retention plays a major role. “With a company culture geared more toward external clients, how are we going to position ourselves and introduce more market standard practices within a firm?” he asked.

King Au, CEO at BOCHK Asset Management, acknowledged that the industry is a “people business,” and recruiting a team of key talent and retaining them is critically important. For a relatively new asset management firm, creating its own corporate identity from the ground up is important. “We are trying to establish our own culture, so it’s not just about compensation; it is really about finding people who share the same mission and values.”

While finding the right people is essential, executives at the breakfast forum discussed how the talent pool is becoming increasingly tight. CEOs must look elsewhere to find talent. Some versatile people in the market can transition, for example, from the sell side to buy side. While some roles require a specialist skill set, and cultural fit can be an issue for some, versatility is a useful and valuable trait often not exploited enough. King Au saw the worth in having a more diverse talent pool that could switch into other functions, but this has its limitations. “It doesn’t work for all roles. For example, a fund manager has a very different skill set,” he pointed out.
Vineet Vohra, regional head of wealth development, HSBC Asia Pacific, echoed this and believes the market is becoming over-specialized. “It may undermine the strength of organizations, as you need to have people with a wide range of skills to be in tune with changing times and the dynamism required.” The participants acknowledged that there is a fine line in balancing people with a combination of skills and hyper-specialization. Andrew Tsui cited anecdotal evidence to show there is a pool of highly skilled personnel from investment banking looking to transition into asset management, but there isn’t enough demand to take on these people. Attendees agreed that transitioning from an essentially transactional environment to one more focused on relationships requires a substantial change in mind-set.

Serina Wong pointed out that most senior executives in asset management have been in the industry for many years. The number of respondents reaching 10+ years’ industry experience rose to 94% from 88% last year. Holding a senior management role, as many survey respondents do, requires substantial experience in the asset management industry. There are few senior executives at the management level who move from other sectors into the asset management industry, for example, from the sell side to the buy side. This is a phenomenon perhaps more common earlier in individuals’ careers.
In this year’s survey, the participants were specifically asked about their own organization’s differentiating factors. It was concluded that when dealing with institutional clients, a strong investment performance is most important for both CEOs and sales executives. Aside from this, their views differ concerning the most important differentiating factors.

From the regional CEOs’ perspective, distribution capability and local commitment come second and third in winning business across Asia. From the sales executives’ point of view, the quality of client service, the stability of the investment team, and the brand name are key factors.

When discussing this question with regional CEOs, it is interesting to note that the factors also vary in significance depending on the client type. When institutional clients look to differentiate between asset managers, the main considerations include the investment performance, whether there is a comprehensive product offering, and the quality of client service; however, when one considers retail clients, different factors take priority such as the distribution capability, the local commitment, the technology platform, and the level of product innovation.
Breakfast forum attendees pointed out other considerations. They saw more fundamental factors playing a key role in what is essentially a people business. The “currency of trust,” integrity, and shared values underpin client service delivery, and how this manifests itself in practice is what also can set different brands apart. Vineet Vohra said there is a need for more trust in the industry, and he looks for a partner with compatible values, “saying what you want to do, and doing what you say.” The focus is not necessarily on product innovation but on reputation and what the brand stands for. For him, it is important that firms need to ensure that compensation aligns to the performance and behaviors expected of their staff.

Building on the theme of trust, participants see leadership responsibility, honesty, and sincerity as key building blocks. Following the financial crisis and the ever-present public perception of greed, it is still “an industry of broken trust,” according to Donnell Green. She asked the age-old question, “How do you build this trust and how does it become apparent in a client relationship?” Collectively, attendees also saw a similar manifestation internally, with trust and communication essential to managing rising expectations of high-potential talent coming into an organization.

While “technology platform” was rated relatively low as a differentiating factor, CEOs did note that there has been a shift toward technology disruption in the asset management industry. As Andrew Tsui pointed out, “There is a gradual liberalization in China taking place, with non-financial organizations now entering the market and setting up online banking platforms.” He reported seeing a lot of innovation convergence in technology and financial services as well as the government encouraging experimental systems to meet the financial planning goals of the population. Serina Wong noted that a prime example of the sheer speed of the transition toward technology in China is the launch of Yu’e Bao, a money market fund that is a joint effort between Tianhong Asset Management Co. and Alibaba Group. The fund reached a level of more than 500 billion yuan ($81 billion) in a period of about nine months from June 2013. Tianhong Asset Management, a then-relatively unknown Tianjin-based firm, suddenly overtook China Asset Management Co., pushing it to second position in the China industry ranking.
More innovative technology will undoubtedly transform the global asset management industry over the next decade, and a shifting client base will demand a more personalized, flexible service, requiring asset managers to radically rethink their IT strategies. For example, firms have yet to fully exploit the capabilities of big data. The way investments are made will evolve over time as technology gradually reshapes the industry; however, participants still agreed that traditional human factors play a key role in driving a company’s success.
Questioned on asset class trends back in April 2014, core equities led the way as the first choice for 34% of respondents. Investor sentiment in Asia has lifted in the belief that market conditions are improving, edging up on the risk curve to seek out better yields. Fixed income has performed well overall, and “decisions continue to be fueled by a home country bias,” said Vineet Vohra.

Taking the region as a whole, a variety of strategies are being played out from country to country. “Some countries are focused more on alternatives, and some nations are still in an early phase, transitioning from fixed income to equities,” explained Winnie Pun, adding that retail and institutional clients have very distinct demands and expectations. Property has fared well so far with strong demand for REIT, and attendees reported seeing both sides of the coin; REIT vehicles are being used as an absolute alternative or supplement to direct property investment.
Michael Buchanan also looked at strategies likely to play out in the coming months. Emerging markets as an asset class look relatively cheap compared to developed markets, heavily driven by China and the China banks, but he saw challenges ahead. “China needs to focus on cutting the credit-to-GDP gap at a time of excess capacity in many sectors. Although China looks relatively cheap, the returns may be stretched.” The key challenge is beating the cost of equity and maintaining a competitive compensation based on fund performance in an environment of falling investment returns.

When considering geographically where growth will be seen over the coming months, according to the survey participants the focus will be in North Asia. When discussing this point with regional CEOs, it has been noted that North Asia can further be split into Greater China, Japan, and then Korea, in order of priority. When establishing where the growth will be seen, it was also said that Korea will have more opportunity on the institutional side, Japan and Taiwan will look more to the retail market, and China will look to both.
Commenting on the forecast for the next 12 months of what client type these assets will come from, Xiaofeng Zhong said it is also important to grow non-sovereign segments including corporate, insurance, and pension plans. “Overall the market is growing, and the challenge for asset managers is to ensure it grows without being exposed to too much volatility. To do this it is important to continue collecting assets from the sovereign segment, but in the midterm we will continue to broaden our customer base.” Investment strategy and product range will become increasingly important to ensure a stable and motivated workforce in an environment where pure compensation isn’t everything.
Employee satisfaction.

While a significant proportion of total expenses are spent on people, increasingly varied ways are now used to retain the best talent. Executives are becoming more attuned to effective retention policies; however, various disconnected internal and external issues have a bearing on employee job satisfaction. In general terms, job satisfaction, or lack of it, can be cyclical. Fluctuations can be determined by changes in the workplace or wider economic and demographic trends.

In a recovering market, this year’s numbers show a shift to a more positive sentiment with a higher proportion of “most satisfied” (on a scale of 5 being most satisfied and 1 being least satisfied) with current employers this year—37% versus 24% last year for sales executives. Part of this could be attributed to more stable market conditions. The same can be applied to CEOs. In 2012 only 14% were “most satisfied” in comparison to 54% in 2014.
While there is an evident increase in satisfaction levels with current employers over the past three years, the equally increasing challenge of attracting and retaining key talent remains. The factors that motivate these top performers, or at least provide sufficient work satisfaction to stay with an employer, continue to evolve and can be influenced by market conditions and sentiment. While brand name and company culture have consistent importance in this industry, other factors vary from year to year. The firm’s commitment to Asia was much more of a concern to its employees in 2013 after the uncertainty of 2012, when firms, such as ING Investment Management, were selling parts of their Asia business. The stabilization of market conditions has led to a sense of security for executives who work for global firms, evident in a drop of 10 percentage points in 2014.

CEOs and sales executives: What are the most important factors to attract and retain key sales staff?

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The market volatility/job security equation is now less of an issue, and, during the breakfast forum, there was broad agreement from the attendees that retention strategies are slowly bearing fruit, highlighted by the current turnover rate of 8% to 12%.

Serina Wong made an interesting distinction between wealth management and asset management vis-à-vis work culture: “Broadly speaking, in private banking, the individual leader plays a very important role in staff retention, whereas in the asset management industry, the business is much more ‘institutionalized,’ so, in effect, the organization itself becomes the leader.” From Eleanor Wan’s perspective, the reason leadership and stability of management has dropped this year is because, in Asia, many places of work are regional arms of global firms: “Asia is more penetrated by the global firms, and the leadership element is limited to within the region. The way leadership is executed is driven more by global strategy and culture.” Although brand name figures highly as a key factor in retaining sales staff, Faustina Chiu cited the importance of product range and the right platform for key sales staff to sell well, certainly for prospective new employees.
Both this year and last year have seen a relatively good market, and, as such, the total annual compensation of sales executives in Asia looks positive. Of particular interest was that over 50% of respondents reported an increase of at least 10%; 19% of respondents saw an increase of over 20% in their total annual compensation.

From conversations with regional CEOs, 2014 is also set to be a relatively good year for most asset managers. In general, achieving set targets appears likely; however, when it comes to the bonus pool, many have indicated that it will not necessarily increase from that in 2013.
The bonus structure has become an increasingly important push-pull factor for many senior executives in Asia. In Europe the stringent regulations concerning bonus payments since the global financial crisis are well known and well publicized. Caps are being introduced, and claw backs are common. In the UK, as much as six-year claw backs could be put into place. This sort of change to the compensation structure even affects executives based in Asia, as seen by those that work for bank-owned European financial institutions.

Of all survey respondents, 30% are still paid all in cash without deferral. At the other end of the spectrum, around one-third has at least 30% of the bonus deferred. This diversity is an important consideration when an executive considers whether to join or leave a company.

During his closing remarks, Michael Buchanan, who came to the region from Europe, highlighted a local quirk in Asia in that asset management staff tend to be more candid in talking about their compensation packages when compared with other regions. “This is not just a young-versus-old split but also an Asiacentric difference. At a peer level, everyone is going to share compensation numbers, so managers have to be much more candid and specific to ensure the relative performance and compensation matches.” He believes it needs to be communicated clearly to avoid any conflicts.
Conclusion.

The constant wave of new regulations is effecting big changes in the asset management industry, influencing the bottom line and fundamental operating methods. It is affecting culture, product development, investment strategies, and marketing, and only firms with benefits of scale will easily absorb these costs. Yet this increased scrutiny and industry transparency helps build trust, and asset managers are trumpeting their reputational values as much as their product innovation.

This also touches on how individual firms position themselves both internally and externally. Brand name and company culture are key to attracting and retaining the best talent. Firms are gradually scaling up employee engagement initiatives, succession planning, and transparent and equitable compensation structures to stay ahead of the game.

About the author.

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