PwC Asset Management Highlights

How asset management firms reward and manage talent

Highlights from PwC's June 15, 2012 webcast

Introduction

Building, managing and maintaining a high caliber team is top of mind for every company, and 2011 proved to be a challenging year for the asset management industry with volatile markets, minimal M&A activity, and increased scrutiny around compensation. Growing human capital in this low-growth environment has become the critical challenge for many HR leaders. Leaders contend not only with developing competitive and valued compensation, incentive and talent programs, but also developing these programs within a more tightly governed, regulated and transparent environment.

PwC's US Human Resources Services practice examined these issues in its *2011 Reward and Talent Management Survey*. PwC's Human Resources Services practice brings together a broad range of professionals working in the human resources arena – retirement, health & welfare, total compensation, HR strategy and operations, regulatory compliance, workforce planning, talent management and global mobility – affording clients a tremendous breadth and depth of expertise, both locally and globally to effectively address the issues they face.

Sixteen asset management organizations participated in the 2011 survey, conducted from October 2011 to January 2012. Participants spanned a wide range of size from organizations managing less than $25 billion in assets to organizations managing one hundred billion and more, with assets under management including both general as well as separate accounts. Participants comprised independent firms, or independent asset-management firms; those within an affiliated structure, or an affiliated asset-management complex; and subsidiaries of large, more diverse, and in some cases publicly traded or private parent firms. No pure-play private equity firms participated, however there were a number of firms that could be considered hedge funds or alternatives as well as those that might be considered hold asset-management organizations.

Even with this wide variation in participant firms, common themes emerged across all of the different subsectors. On June 15, 2012, leading practitioners from PwC conducted a webcast titled: *"Highlights from the 2011 Asset Management Reward and Talent Management Survey."* During the webcast, PwC practitioners discussed general insight regarding headcount growth and talent-management trends, and deeper details surrounding a number of compensation issues including quantum and design, annual-incentive plans, deferred compensation and equity-based compensation, employee benefit plans, and issues related to governance and the regulatory environment.

More than 300 asset management executives and human resources professionals participated in the webcast, and added to the dialogue through responses to a real-time online survey that probed important issues. This paper presents the key findings from the 2011 survey, highlights from the webcast dialogue, and detailed responses to the webcast participant survey.

We hope this paper provokes thought and serves as a useful tool as you work to manage and grow human capital in 2012 and beyond. For more information, please contact one of the PwC Human Resources Service practice leaders listed at the back of this paper, or your PwC representative.

Webcast Leaders

Scott Olsen

Principal, Human Resource Services, PwC

Scott Olsen is a principal in PwC's Human Resource Services Practice in the New York office, serves as the US Leader of the firm's Human Resource Services (HRS) practice and as a member of the firm's Global HRS leadership team. He has more than 25 years of experience in executive compensation and benefits, including four years of experience in a corporate environment. He has worked with companies in a variety of industries, in the United States as well as in Europe, Asia, and Latin America.

Aaron Sanandres

Principal, Human Resource Services, PwC

Aaron Sanandres is a principal in PwC's Human Resources Services practice in the New York. Aaron specializes in providing HR-related transaction advisory services to both strategic and financial buyers within in the financial services industry. In addition to provide HR diligence support, Aaron spends a significant amount of his time advising his clients on a variety of executive compensation issues (e.g., cash compensation, equity compensation, deferred compensation).

Bhushan Sethi

Leader, Financial Services People & Change, PwC

Bhushan Sethi is the leader of PwC's Financial Services People & Change practice, serves on the firm's Global Financial Services HR Consulting Leadership team. He has more than 17 years of global consulting experience, designing and implementing business operating models and managing large-scale transformations across different functions in the banking, insurance and asset management sectors.

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Headcount Growth and Talent Management

Headcount Growth and Talent Management

Limited growth prospects for asset management firms gives rise to unique challenges for business & HR leaders responsible for managing and retaining talent. Sanandres presented the first set of survey results, noting 2011 was a volatile year and ultimately a low-growth year for the asset-management industry.

Headcount changes reflected this across the 2011 survey participants, as most reported fairly flat numbers to the positive with only a small minority reporting significant headcount growth. Where there was growth, it was seen in two areas: strategic expansion, typically outside of the US, or build-up of back-office infrastructure, namely IT. Looking ahead, participants were cautiously optimistic about headcount growth for the remainder of 2012.

Sanandres noted that PwC's UK office conducted a similar survey and their participants were notably negative at the time of the survey. Thus, based on what's going on in Europe today, we are starting to see converging outlooks between the US and Europe for 2012.

Corporate culture is the key ingredient to retaining pivotal talent: One survey participant noted, "Compensation levels tend to be systemic; cultural issues are not." Webcast participant

Examining turnover, specifically, the survey indicated that employee turnover was muted in 2011, and particularly among key talent, where participants felt they had done a good job retaining some of the key franchise value and key employees. There was, however, a general "bewilderment" around how to engage with millennials, defined as anyone born after 1980. Finally, all participants cited their firm's corporate culture as the key ingredient to retaining pivotal talent, clearly stated by one participant: "Compensation levels tend to be systemic; cultural issues are not."

Olsen asked Sethi to comment on other "ingredients" that encourage and support talent engagement and retention. Sethi pointed out that engagement is a big people issue that is on the mind of PwC clients right now, and what he is seeing is some of the big practices out there are getting back to good, basic principles around leadership: Having leadership demonstrate the right behaviors, being accessible, listening, empathy and management by walking around, for example. He continued that there are two components critical for engagement: Broad-based strategies, and very targeted strategies based on an individual's needs and wants.

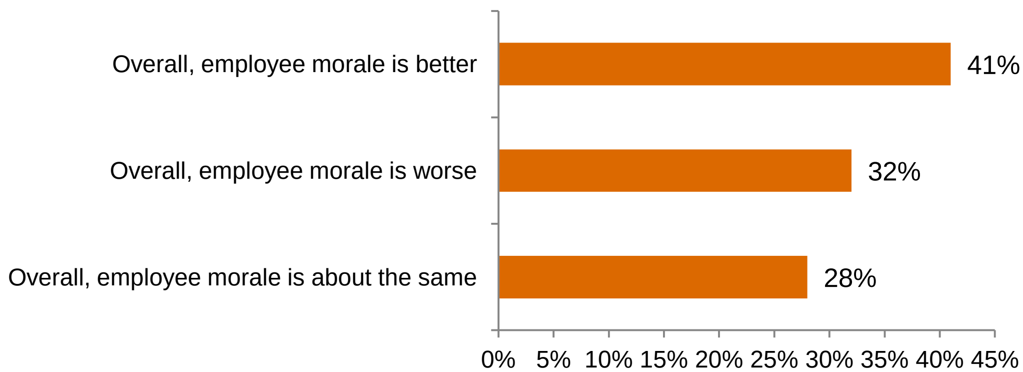
Some other big questions around talent engagement and retention are:

- *How do you drive organizational stickiness within your workforce?* Potentially providing meaningful career opportunities across functions and geographies.
- *How do you provide recognition and exposure for critical talent?* Perhaps being part of a strategic initiative that's multi-year, or has the potential for board-level exposure.
- And, finally, pieces around *flexible working practices*.

In terms of retention, Sethi noted that this is a broad challenge within the asset management industry, and in addition to retaining the millennial level, the middle-manager level is a key concern. A number of middle managers are feeling very constrained, working on multiple pieces of business in addition to a set of change initiatives. To retain and support these managers, the imperative exists to help middle managers through automation or back office changes, and give them support to manage back the constraints surrounding them.

Scott Olsen moved the webcast to introduce the first polling question and asked: "Do you think employee morale is better or worse when compared to this time last year, within your organization?" As the following chart shows, a small minority, or 27.6%, of respondents said that employee morale is better, and the remainder are split between morale being slightly worse or about the same as it was a year ago, with the majority, or 40.7%, falling into the category of morale being about the same.

Do you think employee morale is better or worse when compared to this time last year?



Compensation: Quantum and Design

Compensation: Quantum and Design

There was downward pressure on employee compensation in 2011 with lower bonus pools and increased use of mandatory deferrals. Olsen noted that one of the themes we are hearing is the expectation of asset-management talent to do a little bit more, and perhaps get a little bit less. He asked Sanandres to present the findings from the compensation section of the survey, while touching on these critical areas.

Sanandres led off with a key statistic, total compensation (comp) as a percentage of revenue. Across survey participants, the median comp cost as a percentage of revenue is 48% (this does not include benefit costs). Of course, there is variability in this percentage based on organization type and Sanandres clarified the general rule that the smaller, more active asset managers have higher comp ratios than, say, large, more passive investment firms.

Another key takeaway from the survey is that 65% of participants responded they were making significant changes to their comp programs. Significant changes fell into one of four boxes:

- Introducing mandatory deferred-compensation requirements.
- Adding more structure around the reward-allocation process, effectively adding transparency to a historical black-box approach, defined as an approach that relies heavily on discretion and judgment.
- Rewarding stability better than out-performance.
- Shifting pay mix from bonus to base.

Sanandres pointed out that the shift from bonus to base is something we had seen in the broader financial-services industry a couple of years back, however here it is not driven by regulation. Rather, it is driven merely by the fact that asset-management firms are now recruiting from big banks that had already made a similar shift.

Sethi joined the discussion here, commenting on how companies are looking at performance management and how this enters into annual incentives as opposed to just strictly financial metrics. For example, in the realm of performance management, there is a range of practices right now – from the very scientific, formula-driven, normal distribution practices to some companies actually eliminating performance ratings. Companies are finding that there is too much noise, and too much time is spent, on the actual performance ratings, distracting attention from the core business.

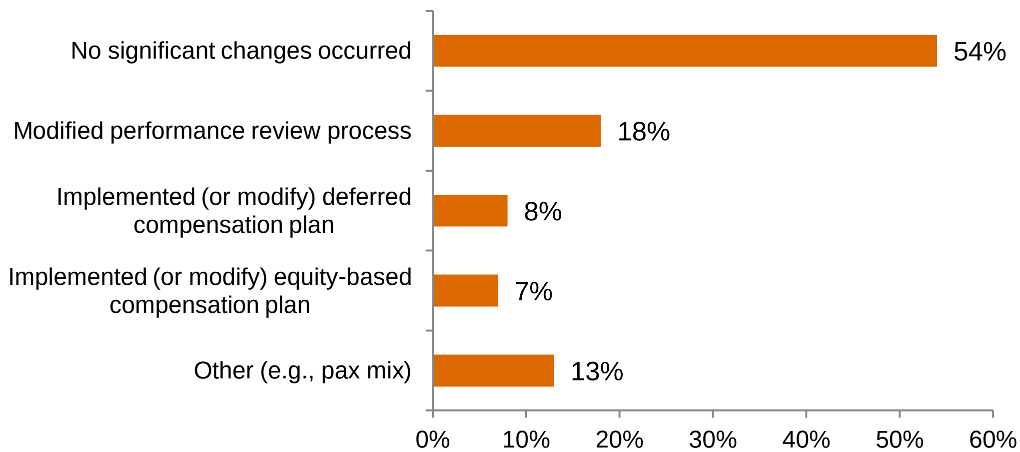
“We are seeing companies using flexible-performance systems to drive retention. Particularly in the smaller alternatives or investments firms, long-range thinking needs to supplement a traditional performance-management process.” Bhushan Sethi

He noted that we are seeing companies using flexible-performance systems to drive retention. For example, some companies are discovering that their “meets expectations” manager might be another asset-management firm’s “high performer” and that they end up losing core talent. Thus, performance evaluation needs to look at performance relative to business goals. Particularly in the smaller alternatives or investments firms, long-range thinking needs to supplement a traditional performance-management process. Things leaders need to think about are:

- Who is my successor three to five years out?
- What are the skills and competencies I need going forwards?
- How can I move beyond an annual performance process, to be more forward –looking about talent and succession planning?

Olsen moved the webcast to the next polling question: “What was the most significant change – or planned change – to your company’s compensation program for 2012?” In response, more than 50% of webcast participants said there are no significant changes occurring in 2012, and the next largest number, 18%, said they modified the performance-review process. Thus, while we did see quite a bit of change in 2011, it looks like things have stabilized a little bit as we moved into 2012.

What was the most significant change (or planned change) to your company’s compensation programs in 2012?



Annual-incentive Plans

Annual-incentive Plans

Annual-incentive plans are clearly a key part of compensation programs in the asset-management industry. The 2011 survey indicated that annual incentives continue to drive the bulk of the comp costs for asset managers, with the median bonus as a percentage of pre-bonus EBITDA just about 40%.

It was noted at the start of the webcast that 2011 was a difficult year for asset managers, and the survey demonstrated that bonus pools tended to reflect this, being down for most participants. The average decrease over 2010 was just about 10% in real-dollar terms. This makes sense, as most of the participants adopt a formulaic approach to funding the bonus pool, either a percentage of pre-bonus EBITDA, or to a lesser extent, a percentage of revenues. The structure around the allocation of bonus pools also varied significantly by size, with the smaller firms using more discretion than structure, and the larger firms vice versa.

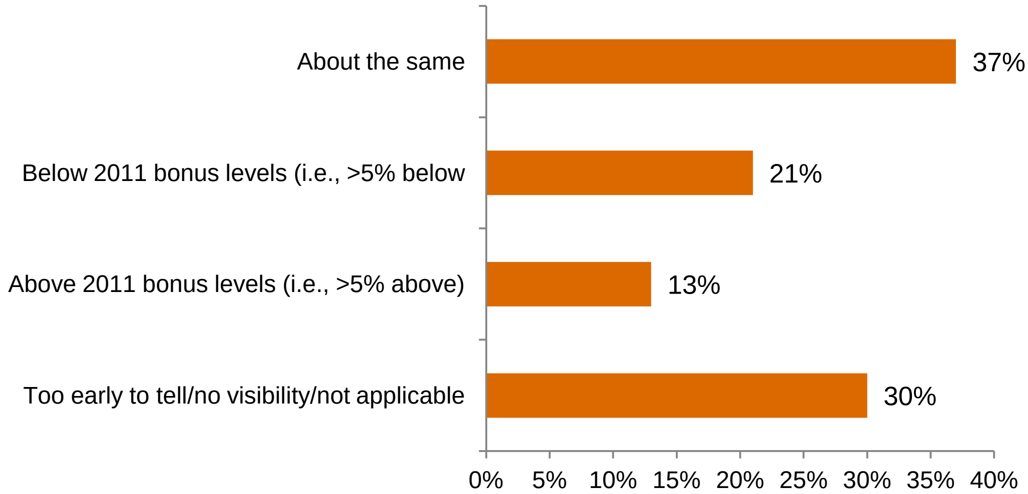
Sanandres pointed the discussion to the growing use of "claw-back provisions" among larger firms, defined as programs that allow organizations to recover compensation that was paid out for performance that perhaps was not truly earned, or for performance that may have been accompanied by either misstatements or fraud or other means. One webcast participant asked, what are some of the practical limitations of claw-backs?

Sanandres explained that claw-backs really have two aspects to them: The first is the triggering mechanism, or the determination of what might warrant a claw-back. For example, what might be the outcome, the behavior, or the change in results that would trigger a claw-back? In some cases, it's as simple as saying any profits that were booked in one period were lost in another period. It might be an understanding that somebody who is managing a portfolio was managing outside the guidelines or the compliance of that portfolio, and that results were misstated as a result of that. The second mechanism is, what actually happens in terms of what gets clawed back? In many cases, this tends to be a bit more discretionary.

Sanandres noted that depending on the way claw-backs are structured, particularly if they impact equity compensation, it can actually trigger some adverse accounting, in terms of differences in grant data understanding. So, the whole area, while it seems relatively simple, is in fact quite complex. Thus, it's an area that will continue to get attention, but an area where the early experience is fairly limited.

Olsen then posed the third polling question: "Based on year-to-date, what are your expectations for 2012 bonus pools, vis-à-vis 2011?", and acknowledged that this is a tough question to pose in June. In response, most respondents, or 36.5% think bonus pools for 2012 will be about the same as 2011, and another third think it's too early to tell.

Based on year-to-date, what are the current expectations for 2012 bonus pools vis-à-vis 2011?



Deferred Compensation

Deferred Compensation

Sanandres opened the deferred compensation dialogue pointing out that deferred compensation is no longer limited to some of the larger asset managers. Smaller boutiques historically believed that not utilizing deferred compensation provided a competitive advantage, but this has clearly changed. Over 75% of the firms surveyed mandated some form of bonus deferral, and while there was some commonality, there was a fair amount of variability in terms of how those deferred compensation plans were structured.

Over 75% of firms surveyed mandated some form of bonus deferral, indicating that deferred compensation is no longer limited to some of the larger asset managers.

- Amounts deferred ranged from 10% to 50% of the annual bonus.
- The deferral period ranged from six months to three years, with graded vesting more prevalent with a longer deferral period.
- Most firms set a minimum compensation threshold before amounts are required to be deferred, ranging from $125,00 to $750,000.
- Deferrals applied almost firm wide for some, while others saw this as a front-office, portfolio-manager program.
- Deferral amounts were invested primarily in the actual funds the portfolio managers and their teams managed, or held a bit higher, at a company-level equity position.

Sanandres presented an interesting structure that is becoming more prevalent among asset management firms structured as partnerships, where the deferred compensation amounts are paid in profits interest. He noted that this is a partnership-compensation vehicle, which effectively re-characterizes ordinary income into personal gains.

Olsen commented that deferral compensation is an interesting phenomenon, and there are a number of factors driving the increase. One driver is the regulatory environment, and second is that from the customer side, or client side, we are seeing an increase in interest on deferrals to increase stability of the portfolio-management teams, and support the idea of “skin in the game.” Olsen also pointed out the Morningstar Ratings on stewardship, and how this might drive people towards the fund-investment approach versus equity, as well as the notion of having people share a bit more of a common fate if they’re using equities.

Olsen referenced "The Psychology of Incentives,[1]" a PwC study done in conjunction with the London School of Economics. This research found that deferrals are relatively undervalued by those that are receiving them. Deferral has a time-value-of-money cost to it, continued Olsen, pointing out that everyone would rather have money today, as opposed to money in a few years. The risks that people perceive with deferrals mean that those receiving deferrals tend to discount them at an uneconomic rate, and the survey indicated that those rates might be as high as 30% per annum, relative to getting current compensation. This tells us that there is an implicit cost of deferrals, maybe in terms of raising the overall expectations for pay.

Given the environment we've discussed – somewhat lower pools, somewhat stable populations, and now this notion of increased deferrals – it drives us back to a core question: What can companies do beyond compensation to help drive engagement?

Sethi picked up on this thread pointing out the impact of deferrals drives a different way of thinking about the employee-value proposition. Firms need to ask themselves:

- What is your value proposition to current and future employees?
- What are the skills and experiences they are going to get out of the firm?
- What is the culture of the firm?
- How are they going to learn and develop over the course of their career?
- What is their succession plan?

"It will be important to have an employee-value proposition that can be customized for target hires in different markets, where you need to be more of a builder, than a buyer, of talent." Bhushan Sethi

Also important is your employer brand, and where you actually source your talent, whether entry-level or experienced hire. Also, if you look at the growth markets outside of the US, it will be important to have an employee-value proposition that can be customized for target hires in different markets, where you need to, potentially, be more of a builder than a buyer of talent.

[1] "Making executive pay work: The psychology of incentives." http://www.pwc.com/gx/en/hr-management-services/publications/making-executive-pay-work-the-psychology-of-incentives.jhtml

Equity-based Compensation

Equity-based Compensation

Closely related to deferred compensation, and often a component of deferred compensation, is equity-based compensation. Sanandres opened this discussion with a definitive observation that equity-based compensation is definitely on the rise, and has become a fairly common currency among asset managers. 80% of the firms surveyed provided some form of equity-based compensation, delivered in one of two central ways. Half of the firms provided equity comp as part of standalone incentive components, e.g. salary, annual bonus and an annual grant of stock or options. The other half used equity as the funding vehicle for the deferred-compensation amounts.

While regulation and client demand lead to an increase in deferred and equity compensation, there are two additional factors, namely cash conservation and retention. Equity plans, effectively and in some circumstances, serve as capital raisers for the company. Additionally, equity plans are more long-term focused.

As we might expect, the survey indicated that there is a fair amount of variety when it comes to the equity compensation structure employed by the firm. Some key design attributes include:

- The vesting on deferred compensation typically ranges from three to five years, and it is typically graded vesting.
- Liquidity, which is a critical issue for asset-management firms without any publicly traded equity, is typically restricted into until termination or a sale, whichever is earlier.

"A number of clients are starting to struggle with the lack-of-liquidity issue inherent in equity plans. This almost give rise to an incentive for employees to terminate, to gain access to liquidity. Because of this, some firms are starting to look at liquidity windows." Aaron Sanandres

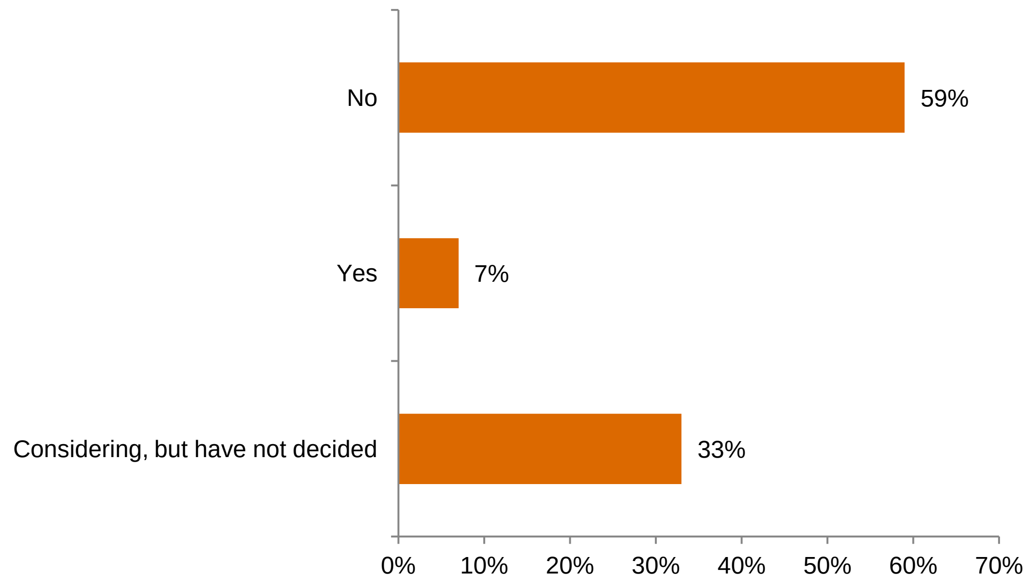
Sanandres shared that PwC has been working with a number of clients who are really starting to struggle with the lack-of-liquidity issue, because there is a lot of value, and wealth accumulation, in these equity plans. This, he notes, almost gives rise to an incentive for employees to terminate, to leave, in order to gain access to liquidity. This creates a whole host of other issues beyond just talent retention – it creates, kind of, the proverbial "run on the bank" risks. Because of this, some firms are starting to look at liquidity windows, to allow some churn of the outstanding liquidity.

Olsen said he's heard of some companies looking at an internal market for the equity, so that they can sell to others in the organization. Sanandres acknowledged this, but observed this is not yet prevalent, primarily due to the difficulties around the structure and the mechanics, most importantly how do you set the value for the equity? He re-emphasized the central trend being liquidity windows, or having some sort of an in-service liquidity option once a year, every other year, for a certain percent. Sanandres did reflect, however, and comment that in spite of the challenges associated with the internal market, we are seeing this trend emerge as firms don't have to deal with some of the accounting issues that typically accompany repurchases of company equity.

Olsen redirected the talk from the type of equity, to who is receiving the equity. Is there any sense as to where people are granting equity? Sanandres commented that equity certainly varies, but typically it is limited to middle management and above. There is certainly not a broad-based use of equity, as we saw on the west coast, with technology companies. In asset-management, equity is still a closely guarded currency, so it's typically limited to the portfolio managers and maybe one level down.

The webcast participants now considered a fourth polling question, having to with the current tax environment: "With the Bush tax cuts scheduled to expire in 2012, do you plan to accelerate the payment of 2012 bonuses in anticipation of the potential increase in individual tax rates beginning in 2013?" Olsen noted that there is a fair bit of uncertainty about this in an election year, but it's curious whether people are looking at the impact of the changing rates on take-home pay.

Do you plan to accelerate the payment of the 2012 bonuses in anticipation of the potential increases in individual tax rates starting 2013?



The poll results announced that very few organizations made any formal plans to accelerate payments, with only seven and a half percent saying yes. Almost 60% do not have plans to do that, and about one third are considering.

Employee-benefit Plans: Retirement and Medical

Employee-benefit Plans: Retirement and Medical

Upon the introduction of employee-benefit plans, Olsen tied the discussion to the wider universe, noting that in many industries there is a great impact of rising employee-benefit costs, whether through traditional pension plans or health-benefit plans. He asked Sanandres to comment on what is happening in the asset-management industry.

Sanandres started by saying that although benefits make up a much smaller piece of the employee package, they are nonetheless closely guarded as valuable pieces of the overall employee offering.

For retirement specifically, almost all participants provided retirements through a defined-contribution arrangement, yet here was some variability in how this was accomplished.

- About 25% provided retirement benefits through a stated company match, typically up to 6%.
- 35% provided a discretionary match, waiting until the end of the year to see how the firm performed. These matches would go up to 15%.
- About 40% provided both a company match, typically smaller, with a larger discretionary contribution made at the end of the year.

One key survey finding was that a number of participants desired to shift a larger portion of the total employee reward package into qualified retirement arrangements, given that they were hitting some of the 401k-plan limitations. These firms expressed interest in a "cash-balance plan," which is really a hybrid defined-contribution and defined-benefit plan.

A webcast participant asked how companies are dealing with the vesting of equity for retirement-eligible employees? If someone retires early, is vesting accelerated, so that you get what you've earned, or is there more of a discretionary process that companies use?

In response, Sanandres answered that we typically find those firms that have a differentiated view of a good leaver or a bad leaver. Within a good leaver category, you will have people who terminate early for early retirement or retirement-eligibility. So, if somebody retires as a good leaver, typically they will have their shares repurchased. The time period in which those shares are repurchased, the value, the formula for actual versus book, value all differ by organization. A good leaver situation is also typically accompanied by some kind of a non-competition or non-solicitation agreement.

Continuing on this point, Sanandres noted that asset-management firms try to string out the repurchase of any shares upon termination of employment. They do this for a few reasons. Where the good leaver's shares may expire beyond 12 months, typically non-competes run 12-months long. If you're repurchasing the shares over a five-year period, which isn't uncommon, then you essentially have a "good corporate citizen" concept. This means that somebody who leaves still has a substantial portion of his or her wealth in their former employer, and thus would be less likely to directly compete, or in any way disparage, the company.

Moving to medical benefits, the 2011 survey found that most participants subsidized 80% or more of the total healthcare cost. This is much higher than the overall marketplace, where you generally see employers subsidize 70% of the cost of healthcare. Participants recognized, however, that headcount growth and increases in healthcare costs would likely require them to rethink the plan-subsidy side. Those firms indicated that if pushed, they might look towards tiered premium-pricing structures, by which the more highly compensated individuals bear a larger percentage of the overall cost. Responses varied in regard to how companies might tier these structures.

Regulatory Environment

Regulatory Environment

We've talked about a number of elements of pay, but one thing that's been underlying financial services compensation in particular, noted Olsen, is an increase in governance and regulatory activity. The central question we examined is how is the enhanced governance and regulatory environment affecting US asset managers, or the US operations of those who may be foreign-headquartered?

Sanandres provided context, noting that we are talking, almost exclusively, about the proposed compensation rules embedded in Section 956 of Dodd-Frank. To recap, he explained that at its core, 956 really looks to change employee behaviors by changing the way people are compensated. It seeks to do this two ways:

- By prohibiting incentive compensation that encourages what they call excessive risk-taking among covered employees, defined as anyone who could expose the company to excessive losses.
- Providing increases in disclosure, as in-scope firms would be required to provide some narrative to their federal regulator on the firm's compensation programs, and specifically why their programs do not promote excessive risk-taking.

Most survey participants did not feel that they would ultimately be impacted by Dodd-Frank, since most felt they would not meet the $1 billion of consolidated balance-sheet asset threshold. They also didn't think that Dodd-Frank would really impact how they would deliver compensation. In many cases this is because their compensation programs already reflected most of the core tenets of Dodd-Frank through engaging risk management via the compensation design and delivery process, or through the mandating of bonus deferrals, or long-term equity participation.

Sanandres noted that interestingly, the same question was asked of European asset managers through PwC's UK survey, and regulation in Europe was felt to be the number-one concern and challenge facing asset-management practices. They cited they were already starting to see some of the competitiveness of the European funds eroding, and giving way to firms in Asia or Dubai.

Olsen added that he believes the differences in the US market versus some other world markets may begin to converge, but that yes, there are differences in approach today. Specifically regarding Europe, he noted that one or two years ago, we were looking at CRD III, and the headline issue at the time was minimum deferrals of compensation within financial services. As that's been implemented, we've seen the notion of proportionality, particularly in the way that the FSA in the UK has worked this. This hasn't directly impacted a lot of asset-management firms, based on their tiering structure.

This summer, we are seeing a new headline issue, which under CRD IV features some legislation within the European Union where bonuses might be capped at 100% of base salaries. Again, it's very early to tell exactly how that will be implemented. In Europe each different territory will enact CRD IV, perhaps, in a different way. While some organizations, or some territories, may continue to use that notion of proportionality, there may be some territories where a provision like a capped bonus may be implemented.

The other thing to consider, is that we've seen a great deal of uncertainty in the US on how Dodd-Frank Section 956 will actually be implemented, said Olsen. There is a bit of a stalemate within those that are responsible. There are seven different federal regulators, who have issued some proposed rules but they have yet to issue any final rules. Then, of course, there will be a lag time between issuance and actual application.

In terms of the uncertainty, we've heard clients most concerned about how the asset thresholds will be applied. There is also this notion of proportionality in the US legislation, as well. Secondly, there is what Olsen calls "regulatory confusion." An asset-management firm that's also part of a large banking organization could, presumably, be regulated by both the Federal Reserve as well as their direct regulator in the SEC.

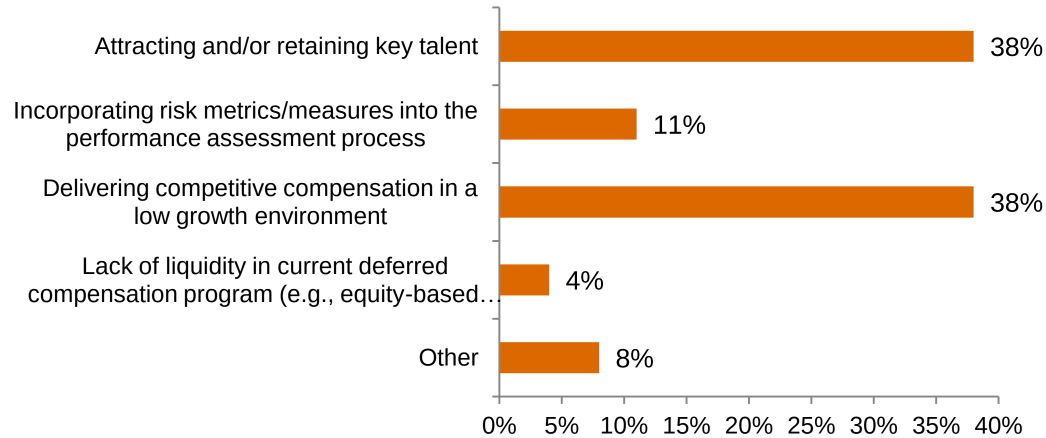
Sethi shared insights into what we are seeing in terms of actual implementation or reaction to regulation in firms he has worked with inside and outside of the US. These firms are seeing regulatory as a catalyst for really looking at broad governance, and compensation is a crucial business decision. Firms are also looking at the other decisions that are being made around customer, financials, product and people, and those investments. Firms are really making sure that the committee structures that exist, the decision-making protocols, and the systems and data are robust enough to provide the needed level of transparency. Thus, firms are looking to professionalize, and change some of their management practices, in anticipation for this regulatory change.

"We are seeing an increase in the level of documentation, and essentially formalizing policies that have already been in place, and being prepared if and when the regulators come knocking." Scott Olsen

Olsen then introduced the concept referred to within the financial-reporting area that firms have a culture of "contemporaneous disclosure" or "contemporaneous documentation." He noted that this applies very well within the construct of the regulatory process, as it applies to human-capital issues, notably compensation. We are seeing an increase in the level of documentation, and essentially formalizing policies that have already been in place, and being prepared if and when the regulators come knocking.

This brings us to our final polling question of the webcast, "What do you see as the most pressing human-capital challenge within the asset-management industry for 2012?" Participants resulted in a bit of a split decision, with 38% saying that the key issue is attracting and retaining key talent, and other 38% saying that delivering competitive compensation in a low-growth environment was the most pressing challenge.

What do you see as the most pressing human capital challenge for 2012?



11% felt that incorporating some form of risk metric or measure into the performance-assessment process was the key consideration, and about four percent cited liquidity and six percent something else.

Olsen reflected that one of the top choices here was attracting and retaining key talent, and asked Sethi to comment on some of the other things we're seeing companies do to address that challenge in 2012 and beyond.

Attracting and Retaining Key Talent – 2012 and Beyond

Attracting and Retaining Key Talent – 2012 and Beyond

"We're seeing a progressive talent hiring and development practice right now in the industry, hiring athletes who can actually flex and adapt to any myriad of changes the industry will undergo." Bhushan Sethi

In thinking about what's attracted people to this industry, said Sethi, in addition to compensation the culture of the firm is critical. And, the cultures of the firms are actually changing. If you think about some of the smaller investment managers, they are going from entrepreneurial, to a need to professionalize. They need to go from multi-roles and multi-tasking, to more separation of roles and responsibilities. Sethi emphasized that this drives a profound change in how you manage. Leaders need to be really explicit around what the culture of the firm is going to evolve to; this is an important part of attracting talent, so that they know the organization.

The other piece, when creating a sustainable people strategy, is understanding and accepting that this industry is going to go through additional sets of change. Having the hiring practices around recruiting for athletes who can actually work across product lines; who can actually work in both middle- and front-office and across geographies; and can flex to an alternative business model that might happen in "x" number of years. We are seeing this progressive talent hiring and development practice right now in the industry.

"If all the tide is out, and all the boats have come down, how do you keep people interested in the business? And, that's the culture. That's through building, essentially, brand reputation and building mobility." Aaron Sanandres

Looking at competitive compensation strategies for the future, Olsen asked what firms might do to deliver competitive compensation in this low-growth environment? Sanandres referred the group back to one of the comments made by a participant, that compensation levels are generally systemic. So, if we are in a low-growth environment, the thought is that all asset managers will be faced with the overall downward pressure on compensation, especially those that may have high watermarks, and haven't returned to those levels; we go back to the culture. As an analogy, if all the tide is out, and all the boats have come down, how do you keep people interested in the business? And that's the culture; that's through building, essentially, brand reputation and building mobility.

Olsen clarified that what we're seeing is that the definition of compensation may be changing as well, and what was competitive three or four years ago may be a bit different than what we're seeing today. To validate this, Olsen referenced *"The Psychology of Incentives"* research that found two things that drive people's perceptions of paydown: deferral, which we spoke of earlier, and complexity.

Based on all the changes we are seeing, Olsen said that another way to address the competitive-compensation question is through better communication, and education of those receiving incentives. He noted that we might be assuming that individuals working in the industry, because they are very financially sophisticated, understand their compensation program. However, the level of complexity is oftentimes misunderstood, and therefore undervalued. To make compensation programs more effective, we need to consider communication, education, and, quite frankly, consistency. Because the other thing we oftentimes see is that people react badly to changes in compensation patterns.

"We need to think about the full talent life cycle, and develop a holistic solution. So, a real link between the talent-value proposition, around retention, around hiring, around the management culture – this is important." Bhushan Sethi

Sethi added a final thought, saying that there is a range of practices in the talent-management space. Thinking about these elements as a full talent life cycle, and what is the impact of compensation on how you're rewarding, what is the leadership response to management in turbulent times, in a low-growth environment? This has to be thought of as a holistic solution. Too many companies have to focus on attracting talent whilst talent is walking at the door. So, having a real link between the talent-value proposition around retention, around hiring, around the management culture – we see as important.

For Further Information

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The actual Asset Management Talent & Rewards Survey can be found at pwc.com/us/assetmanagement. For more information, please contact:

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