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Dawn of a New Era:
Compensation Expectations to Be Dramatically Reset

Many senior professionals in the asset and wealth management business have long expected that their compensation would continue to rise every year as a result of skilled labor shortages. That's hardly surprising. There have been nearly 35 years of steady growth in the asset and wealth management industry – at least until very recently.

Boston Consulting Group nailed it in when they wrote in the fall of 2017 that the long connection between assets under management and revenue growth had been broken. BCG argued that the broken linkage was a watershed moment for the industry and a signal that all the disruptions that had been talked about for years were real and changing the business model.[1,2] Now these disruptions are being accelerated by the economic downturn and market carnage caused by the COVID-19 pandemic.

Despite the warning signs of the brief fall in compensation from 2008 to 2010, a fantasy worldview persists among many senior executives in the investment management business that rising compensation is an entitlement. A significant survivor bias in the wake of the disappearance of almost one-third of the total number of firms through merger or business failure during the last decade has bolstered this mindset.[3, 4, 5, 6, 7]

As a result, boards and owners must aggressively readjust management communications around compensation expectations and strategic guidance on

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manpower planning in order to reflect to this new reality: Namely, that there is an executive labor oversupply in many functions, coupled with the “new normal” of falling total compensation levels. Stewarding corporate resources more carefully, pinpointing precise areas for growth, and slowing expenses, is critical to good governance.

The immediate and deep turbulence caused by the COVID-19 pandemic for the remainder of 2020, on top of an ongoing trend of the disruption of historic relationship between assets and revenue/profitability growth, will lead to a prolonged period of falling compensation. The majority of the large asset managers included in the II300, especially those firms with predominantly core long-only investment products, have seen little or no organic client growth since the recession of 2008-2009.

In Wilbanks Partners’ ongoing anecdotal survey of over 50 investment management firms, we are finding that, over the past several years, unforced turnover statistics for exempt employees and senior executive management talent have been running at historic lows of less than 5% annualized. That’s a significant change from the past; faster growing markets demanded increased hiring to enable firms to take advantage of opportunities, and more aggressive compensation packages functioned as a key ingredient to accelerating hiring success. In order to hold onto talent, market competitors raised pay defensively in the face of increasing turnover, leading to broad pay boosts across the investment management industry. Even though trends have changed dramatically since the financial crisis, executive turnover has remained low, a result of excess liquidity in the investment management executive labor market.

With little or no organic client growth, fee compression, and low executive employee turnover, firms will find it difficult to justify higher – or even flat -- compensation levels at the current time. To minimize the turmoil that this shift might cause, we recommend that firms and business leaders begin their communication initiatives on this downward trend in compensation early, even if they expect a market recovery in the second half of the year. In addition, compensation programs should be focused on retaining core lower and middle level managers across the current downturn in order to build loyalty and support for the employment brand. Initiatives targeting more senior executives or specialized exempt employees should center on expectation management for significantly smaller discretionary compensation pools, far greater differentiation in variable pay based on performance, and the continued expansion of equity participation programs. With regard to recruiting, many of our clients are continuing to hire selectively with restraint in key high-potential growth areas, avoiding high signing bonuses and multi-year guarantees, and with special attention to the continuity of corporate cultures.

First and foremost, resetting senior professionals' expectations regarding shrinking bonus pools requires clear communication from managers. We suggest that these communications be made in smaller group meetings or one-on-one reviews.

Given that a portion of bonus pool may be contractually committed to certain bonus programs based on revenue sharing, investment performance, or sales commissions, the priority for the remainder of the bonus pool should be on increasing the differentiation of bonuses for top-quartile versus bottom-half performers. In our experience, the feedback from top performers regarding these types of performance-differentiation initiatives is always positive. The top quartile performing employees gain a great deal of psychological gratification and

confidence in the meritocracy of the governance of compensation programs, and the grumbling from the bottom half has little lasting impact.

The ramifications of these efforts will take several years to permanently change compensation expectations of professionals at all levels in the industry. Therefore, starting this process immediately is essential. One of our clients summed up these issues succinctly, “The employment brand is critical. You want your firm to be the employer of choice. If firms mistreat people, especially on the lower levels, they’ll flood the Glassdoors of the world with negative information, and it will take years to recover. You need to keep a positive vibe out there by supporting mid-level employees and being really clear through overcommunication on executive level expectations.”

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Notes

1. Brent Beardsley, et al. “Global Asset Management 2017: The Innovator’s Advantage,” Boston Consulting Group, July 11, 2017, page 9, accessed April 24, 2020. https://www.bcg.com/en-us/publications/2017/wealth-management-insurance-global-asset-management-2017-innovators-advantage.aspx.

2. Betsy L. Graseck, Cristian Edelmann, et al. “Wholesale Banks & Asset Managers: The World Turned Upside Down,” Morgan Stanley Research & Oliver Wyman, March 17, 2017, accessed September 28, 2017. https://www.oliverwyman.com/our-expertise/insights/2017/mar/wholesale-banks-and-asset-managers-the-world-turned-upside-down.html

3. Wilbanks Partners llc proprietary data.

4. Christophe Baertz, et al. “Consolidation in the Asset & Wealth Management Sector: What It Takes to Succeed,” PwC, June 28, 2019, accessed April 20, 2020. https://www.pwc.ch/en/insights/fs/consolidation-in-wealth-and-asset-management-sector.html

5. Suzy Waite, Annie Massa, and Christopher Cannon. “How the Asset Management Industry Is Changing: Asset Managers with $74 Trillion on Brink of Historic Shakeout,” Bloomberg, August 8, 2019, accessed April 22, 2020. https://www.bloomberg.com/graphics/2019-asset-management-in-decline/?sref=MSCXFbFk

6. Devin McCune, et al. “Exploring Fund Industry Consolidation: The Good, the Bad, and the Unknown,” Broadridge Financial Solutions, January 24, 2019, accessed April 22, 2020. https://www.broadridge.com/white-paper/exploring-fund-industry-concentration

7. Graseck, 6.