STATE OF THE ASSET MANAGEMENT INDUSTRY

2023 Research Report

WIPFLI

New digital technologies are helping reshape how asset management is done. At the same time, firms understand the importance of retaining and attracting skilled employees who can leverage technology to generate alpha and deliver tailored, skilled guidance to increasingly demanding institutional and individual clients.

To target success, asset management firms must work to build synergies between both their staff and newly available technologies to provide the best possible service for their clients.

Wipfli surveyed 99 asset management firms across 31 states to gain insights into current market challenges — and the steps they're taking to position themselves for long-term success.

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Executive summary

Technology and talent

Rather than prioritizing one over another, asset management firms are recognizing just how much the two go hand in hand. By making smart choices when it comes to technology integration, firms hope to empower employees to do their best work — while elevating their overall client service experience.

Technology and talent can also help firms navigate uncertainty and become more resilient in the face of disruption. How much uncertainty they'll continue to face is the question.

Following several years of market instability marked by workforce shortages, pandemic-fueled irregularities and rising inflation, some firms are showing tempered optimism. More than three-quarters (78%) of asset management firms we surveyed believe the market will rebound to normalized patterns in the year ahead. But at the same time, roughly 72% of firms anticipate extreme market impacts from geopolitical events, and the majority feel a U.S. recession (72%) or a global recession (66%) is likely in 2023.

Accordingly, when it comes to revenue growth, nearly two-thirds of firms (65%) anticipate conservative growth of 5%-8% in the coming year. Less than a third (28%) expect more standard growth of between 8%-10%.

99
asset management firms surveyed

Across
31
states

Investing internally for long-term success

To navigate continued uncertainty, asset management firms must focus on priorities likely to yield positive, long-term results.

With this in mind, firms are investing most of their energies in two critical areas:

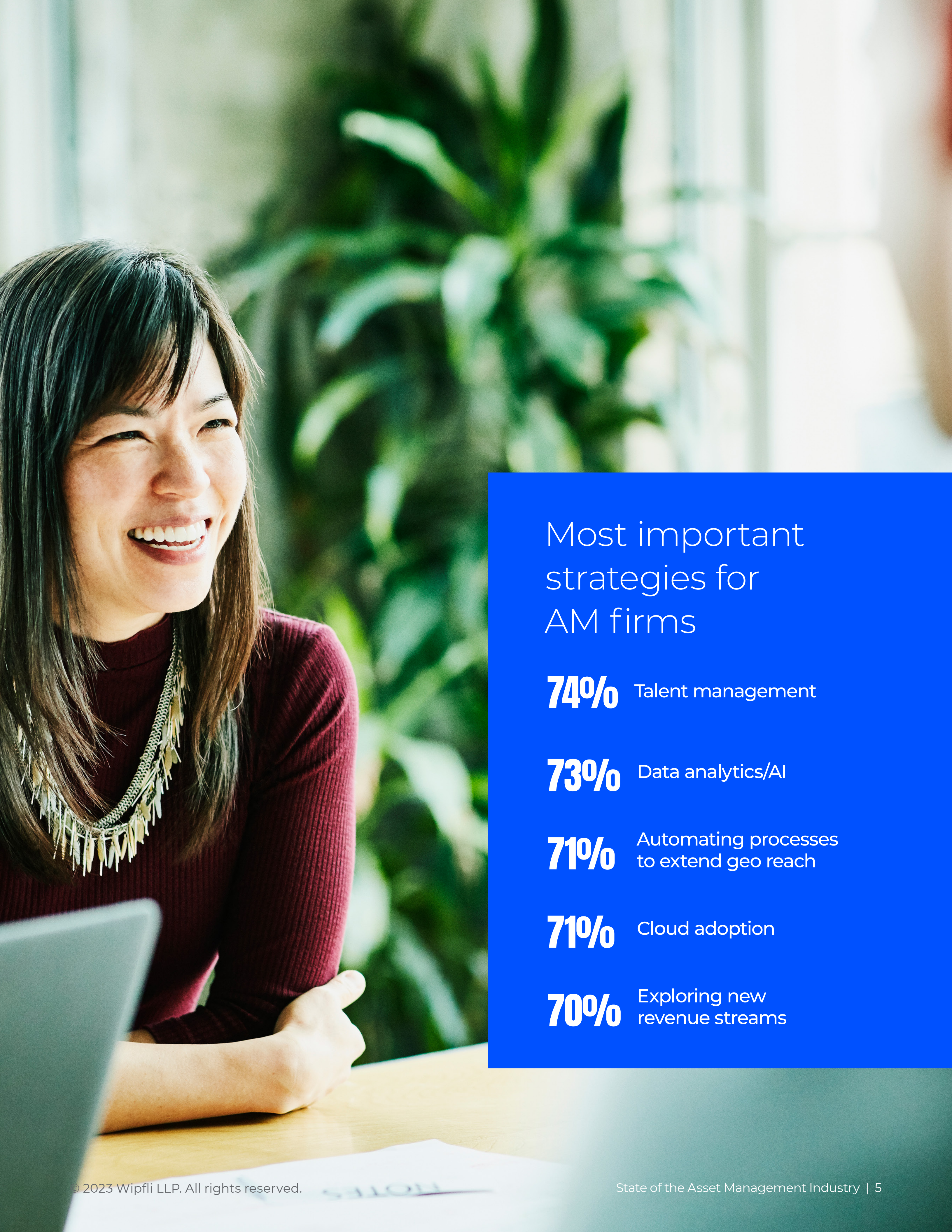
- Talent management
- Technology integration

Too much — or too little — cultivation of either talent or tech can send firms spiraling. Instead, a balanced approach to both is needed.

To attract highly skilled employees in today's challenging hiring climate, firms should consider embracing greater workplace flexibility to match similar movement in other job sectors. Additionally, firms can give themselves an edge in attracting sought-after job candidates by offering innovative perks and striving to build an in-office culture that is welcoming and inclusive of diverse views.

Tech integration should be embraced, but only after careful — and measured — experimentation so that ROIs are maximized. Firms can look to technology solutions to assist in structuring portfolios to generate alpha and to help address workflow challenges and increased client demands.

By effectively building synergies between talent and technology, firms can amplify their capacity to serve clients and reach new tiers of business success.



Most important strategies for AM firms

74% Talent management

73% Data analytics/AI

71% Automating processes to extend geo reach

71% Cloud adoption

70% Exploring new revenue streams

Priority 1: Talent management

Asset management firms are facing intense staffing challenges, just like every other market sector. The Bureau of Labor Statistics reported a record-high number of job openings in 2022. It's a trend experts feel could take years to normalize.

In such a climate, retaining skilled employees — and attracting new ones — can be daunting. Yet, firms recognize securing a talented workforce is vital for their immediate and long-term success.

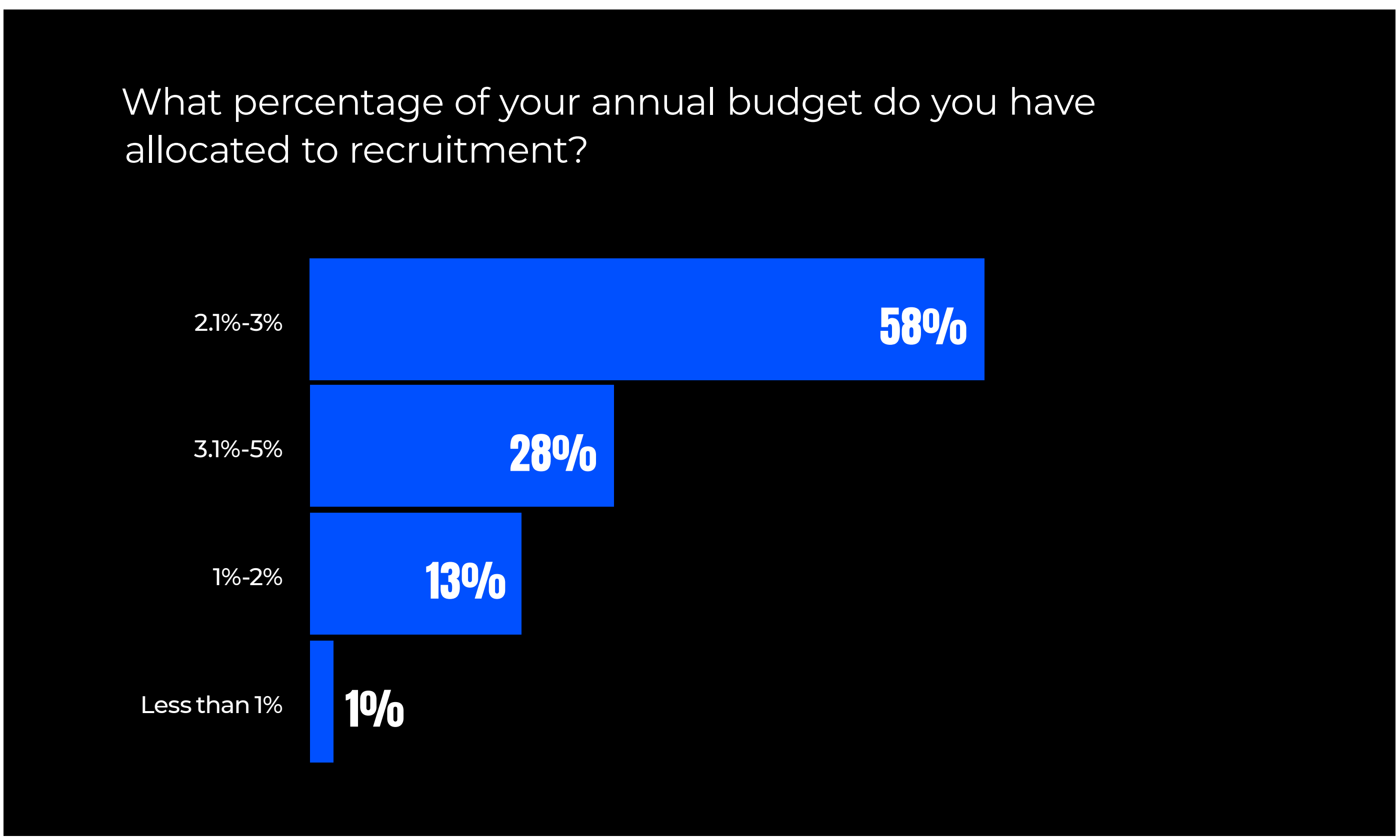
Perhaps more acutely than other business sectors, asset management firms in particular understand what's on the line when it comes to hiring the right teams. Having the capacity to leverage ever-evolving digital technologies to creatively and consistently generate alpha — or, in simpler terms, identify investments that outperform market index or benchmark returns — is key for firms' growth and resiliency.

Yet this business model depends on hiring specialist team members with deep expertise and training in computer science, computational science, information technology or similar fields.

These employees can be hard to find. Once they are identified, they are often highly pursued by competing firms.

Acknowledging this challenge, more than two-thirds (69%) of firms name employee recruitment and retention as one of their top concerns for the coming year. Moreover, 74% say talent management is their most important strategic focus, overall.

In an attempt to attract qualified employees, more than half of firms (58%) allocate between 2%-3% of their budget to employee recruitment efforts. Nearly a third (28%) allocate up to 5% of their annual budget to recruitment initiatives.



Fostering employee development

Firms that cite employee recruitment and retention as a top concern are addressing their staffing challenges through multiple strategies, from implementing technology to take over routine tasks (51%) to revamping recruiting methods (35%) and offering increased benefits and perks (34%).

Employee recruitment/ retention strategies

- **51%** Implementing technology to take over routine tasks
- **40%** Career development pathing
- **38%** Increased wages
- **38%** Leadership development
- **35%** More proactive recruiting of candidates
- **34%** Increased benefits/perks
- **22%** Outsourcing/staff augmentation

Significantly, many firms are turning to employee training and development as a key retention tool. More than a third of firms (38%) say they offer leadership development programming for employees, while an even greater percentage (40%) support career development pathing for their staff members.

Impressively, 62% of firms report having a documented, comprehensive employee development plan that is updated annually, while another 34% have at least a partial employee development plan in place.

These talent development strategies should be applauded — and even further developed, wherever possible. In fact, firms should take steps to make career development, mentoring and coaching an essential part of their workplace culture. And they should market these opportunities actively.

After all, if employees aren't aware of training options, or they aren't encouraged by supervisors to use them, then funds earmarked for professional development could be wasted. Furthermore, without these incentives, employees become more likely to move to organizations where they see greater development and growth opportunities.

To avoid this, firms should implement targeted communication plans so employees better understand existing training opportunities. Employees should also be encouraged to share their own suggestions for new or innovative staff development programming.

In this way, firms can help staff members feel invested in their own career progression and in the overall success of the company itself.

Don't forget about developing promising leadership talent, either. Without a strong focus on leadership development, your firm risks a succession crisis when senior leaders retire and your firm hasn't invested enough in developing younger leadership to effectively take the reins.

Building a positive workplace culture

Millennial and Gen Z workers, in particular, pivot toward workplaces whose values match their own, studies have shown. Many want workplaces that embrace diversity, equity and inclusion (DEI) initiatives and support environmental, social and corporate governance (ESG) goals.

Asset management firms can help themselves stand out in the race to attract employees by building a company culture that engages actively in local community outreach — think park cleanup days, holiday toy drives, charity 5Ks and more — while at the same time welcoming employees of all backgrounds and beliefs.

Relatedly, going forward, firms that proactively help their employees build a positive work/life balance, including through remote or hybrid work opportunities, are the ones most likely to attract the positive attention of highly qualified job seekers.

Rather than demanding employees report to the office five days a week — as two-thirds currently do — firms could instead consider embracing a new acceptance of workplace flexibility. Admittedly, this would mark a significant shift in approach for a job sector known for expectations of long and demanding in-office hours. But this shift is critical, if firms wish to have an edge in todays' competitive hiring environment.

To begin to move the pendulum toward greater work/life balance for asset management employees, firms could consider allowing some leeway in shift start and end hours or let staff members work remotely from home one to two days a month, for example.

Finally, when it comes to increased wages, perks and benefits, firms could be doing more. Far fewer than half of firms note increasing salaries (38%) or other perks and benefits (34%) as a key employment retention or attraction strategy.

Of course, in addition to better pay, younger employees increasingly choose jobs based on workplace bonuses, such as career development opportunities, staff social events, student loan repayment support, mental health programming and more.

Firms willing to offer such incentives stand the best chance of attracting — and retaining — high-performing, skilled employees equipped to take firms to new tiers of success.

Firms that proactively help their employees build a positive work/life balance, including through remote or hybrid work opportunities, are the ones most likely to attract the positive attention of highly qualified job seekers.

Priority 2: Technology integration

Data analytics and other digital technologies are shifting and redefining asset management best practices. In fact, 83% of firms report using business analytics to support data-driven decisions, while just 15% prefer to rely instead on intuition or personal experience.

New, ever-evolving digital technologies are a critical tool in asset firms' approach toward alpha generation. These tools provide cutting-edge data analytics and innovative trend analyses to help firms identify high-performing investment opportunities for their clients.

New tech tools are also helping firms streamline and enhance client communication and engagement and maximize the efficiency of in-office workflows.

It's perhaps not surprising, then, that firms list several tech-related topics among their key business strategies:

- Data analytics/artificial intelligence (73%)
- Automating processes to extend geographic reach (71%)
- Cloud adoption (71%)
- Improving digital customer engagement (68%)
- Labor replacing and/or staff augmenting technologies (67%)

Nearly three-fourths of firms (71%) feel having adequate dollars for technology investment plays a driving role in achieving their goals. At 44% of firms, technology integration expenditures make up between 4%-6% of the total annual budget. At nearly one-third (29%) of firms, tech expenditures account for between 6%-8% of total budgetary expenses.

Top 3 tech-related strategies for AM firms

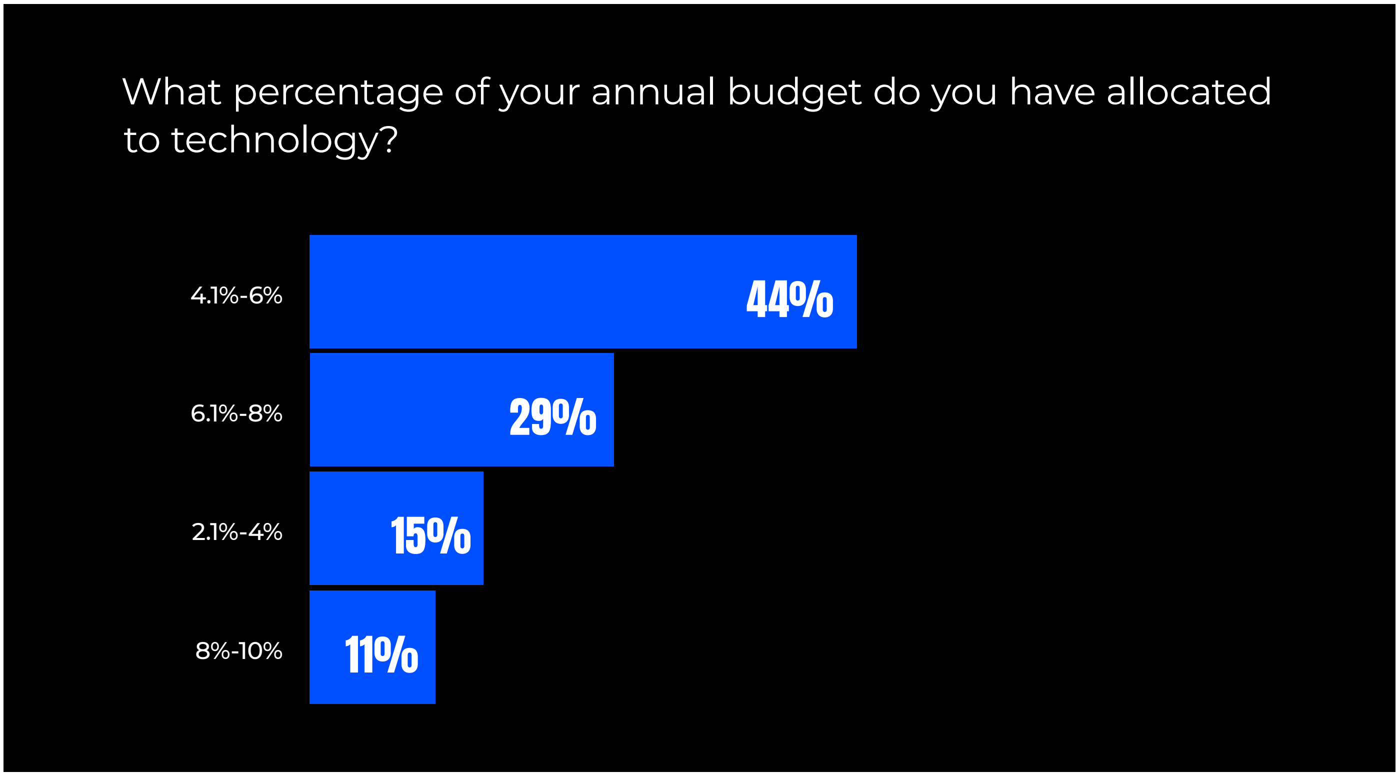
73% Data analytics/AI

71% Automating processes to extend geographic reach

71% Cloud adoption

Still, despite these significant investments, 80% of firms report feeling "extremely concerned" about their efforts to invest in or implement the right technology.

In fact, angst about appropriate tech integration was the top-named concern among all survey responses — ahead of perennial worry points such as cybersecurity (72%), consolidation (69%), regulation compliance (69%) and retaining market share (69%).



Investing in experimentation

In part, firms' anxiety about technology integration stems from the sheer volume of available resources on the market today. Asset management, as a practice, has become very tech focused. More than ever before, cutting-edge analytic tools have become the driving force of investments, especially those focused on maximizing returns while managing risks.

As a result, many firms feel they must adopt the next "big thing" — from today's robotic process automation (RPA) to tomorrow's quantum computing — or risk being left behind.

But rather than jumping in headfirst on the newest tech options, firms should first look for ways to integrate and experiment with them on a smaller, more affordable scale. For little or no cost, for example, firms could run trials using ChatGPT or other AI systems to help write scripts for data analysis.

By starting small with structured, intentional experimentation — and a careful analysis of results — firms can make more informed decisions about their tech integration. In this way, when the time comes to make a large financial investment in new technology, firms can feel secure their decision is the right one.

Enhancing workflow

More than half of firms (51%) concerned about employee recruitment/retention currently use technology solutions to address staffing shortages. Tech solutions can help improve workplace efficiencies and streamline the workload of stretched-thin staff.

As AI grows and new technologies come to market, firms will continue to find new and enhanced ways to build efficiencies by partnering the talents of their human workers with high-tech, AI capabilities.

Far from replacing investment analysts, in the next five years, AI will likely become an increasingly valuable tool in how these analysts do their work — in much the same way that QuickBooks enhanced, rather than replaced, the work impact of human accountants.

Improving customer service

Asset management firms are also leaning on technology integration as a customer service tool. Clients increasingly expect easy access to timely, in-depth reports on various aspects of their portfolio performance (from segmented performance measures and risk metrics to newly developed metrics tracking ESG initiatives). New tech tools can help deliver these seamlessly.

By using tech to automate report generation and other routine client communications, firms are freeing their client-facing team members to more fully engage one-on-one with clients when the need arises.

Finally, tech solutions play a pivotal role in firms' cybersecurity protocols. More than seven in 10 firms (72%) list cybersecurity as a major concern. But this is an area, when handled correctly, that can actually become a selling point.

Clients want to work with firms that will keep their private financial data secure. Firms who invest in state-of-the-art cyber defense technologies — and communicate this fact effectively — can stand out from competitors.

Looking ahead

Asset management firms are in the midst of an exciting era of industry change.

As new technologies continue to speed and expand firms' ability to analyze increasingly complex investment products and design alpha-generating portfolios, the human-centered aspect of their work remains. Clients want to work with advisors who are able to help them understand both the risks and opportunities of the unique and complex investment strategies available to them.

Three-quarters of firms (75%) name "managing and implementing change" as the top factor driving their goal achievement. The response outrated answers such as client acquisition and dollars for tech investment, highlighting firms' recognition of the pivotal transitions currently confronting their field.

In the coming decade, a new generation of investors may increasingly demand new investment options, including strategies that address sustainability and other ESG initiatives. Firms that begin offering these alternative asset classes now can establish an edge in client acquisition over less progressive competitors.

Finally, as firms work to grow and evolve in the years ahead, they can set a clear path to success by focusing on change management as it relates to two key internal assets: talent and technology.

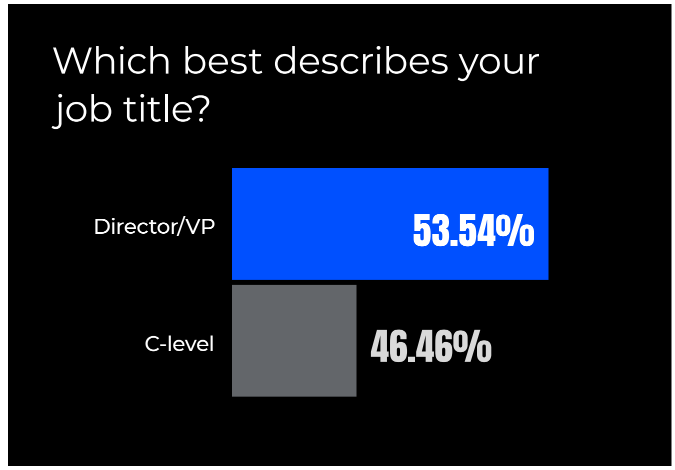
Neither is a solution in itself, yet both can elevate the other — when integrated effectively.

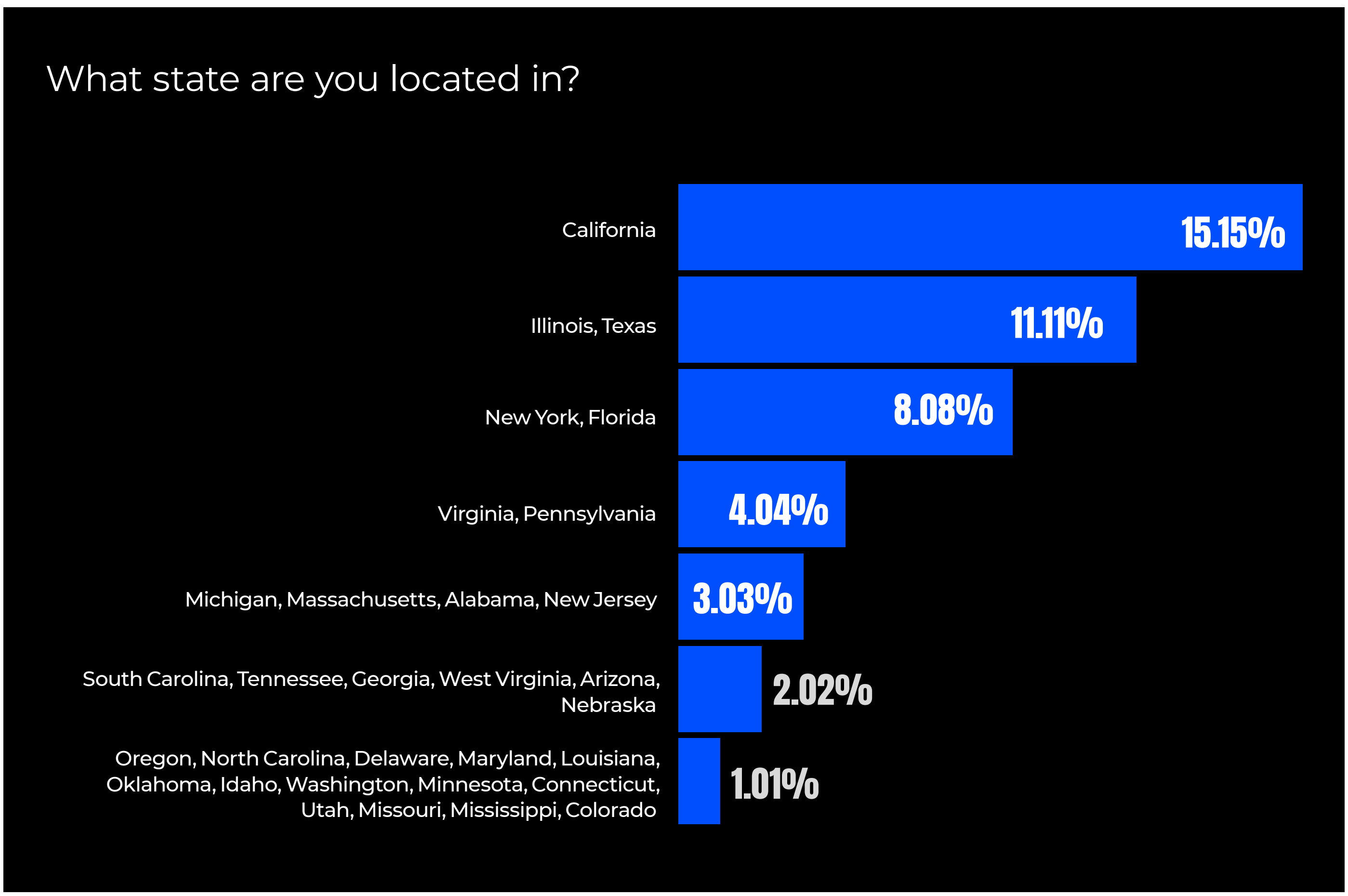
Three-quarters of firms (75%) name "managing and implementing change" as the top factor driving their goal achievement.

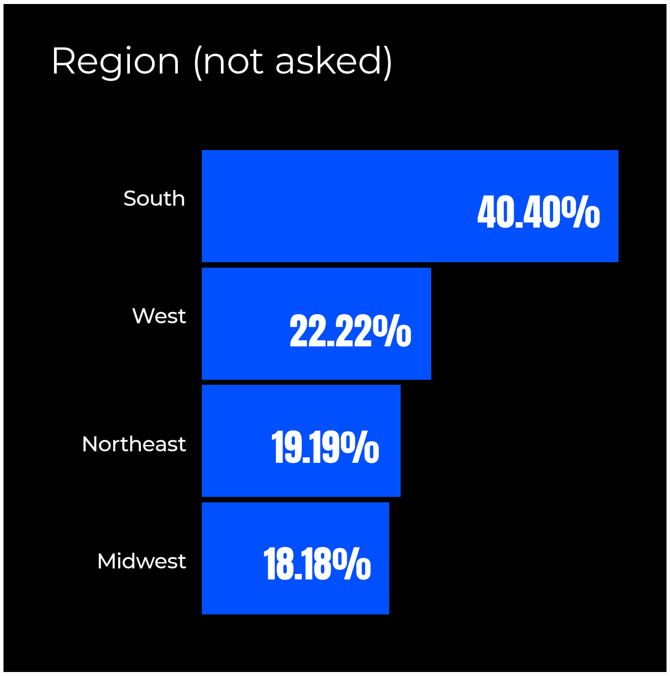
Appendix: The raw data

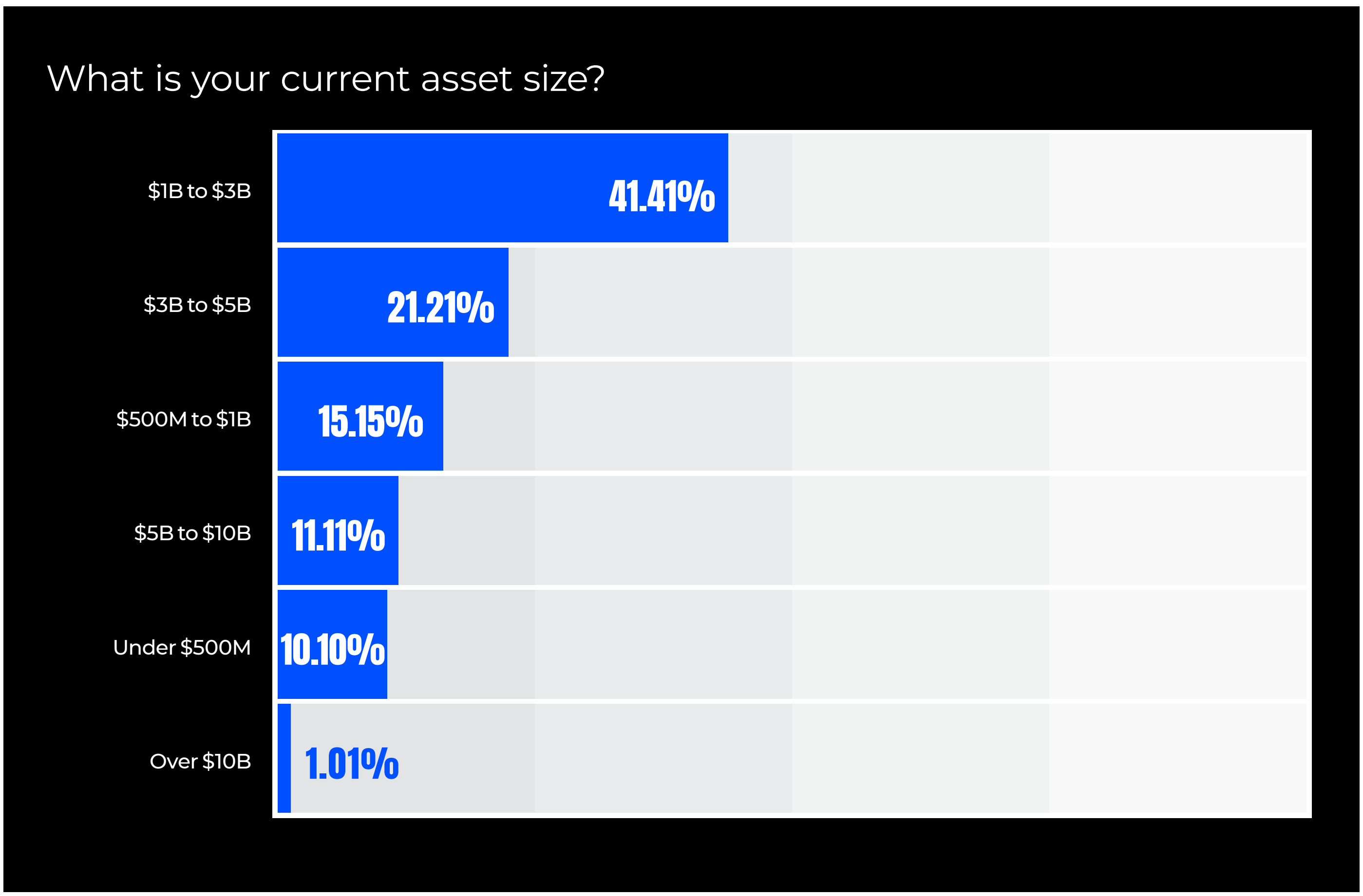
Wipfli received survey responses from 99 wealth management firms across 31 states.

The survey was emailed and the answers were collected in May 2023. All responses were confidential and anonymous.



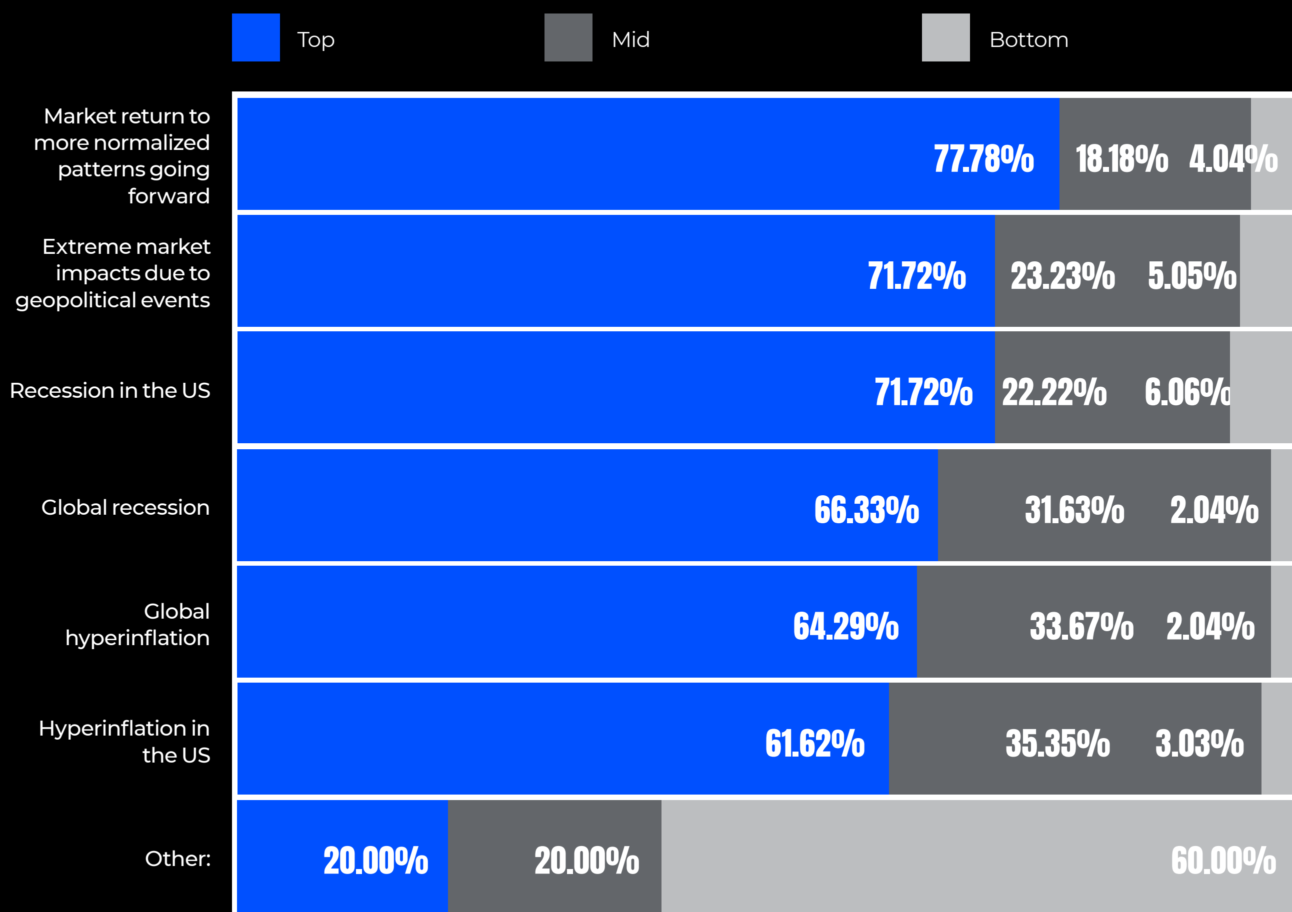



Region (not asked)
South
40.40%
West
22.22%
Northeast
19.19%
Midwest
18.18%

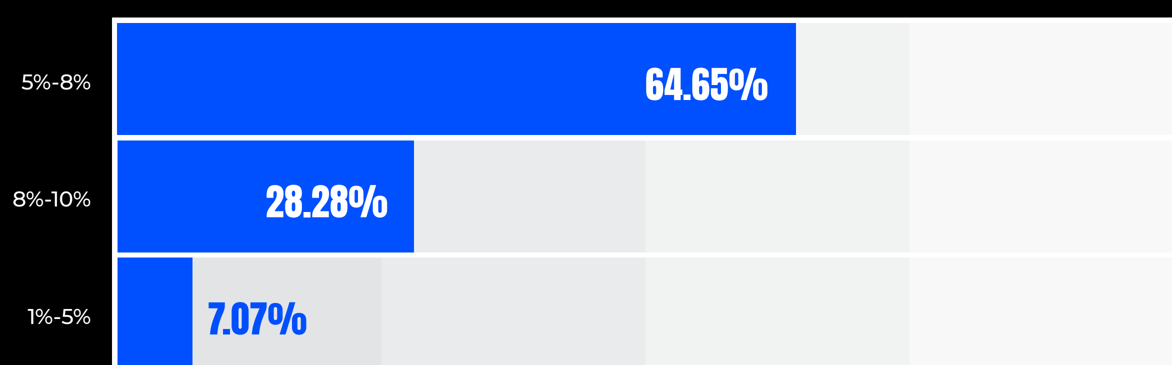

What is your current asset size?
$1B to $3B
41.41%
$3B to $5B
21.21%
$500M to $1B
15.15%
$5B to $10B
11.11%
Under $500M
10.10%
Over $10B
1.01%

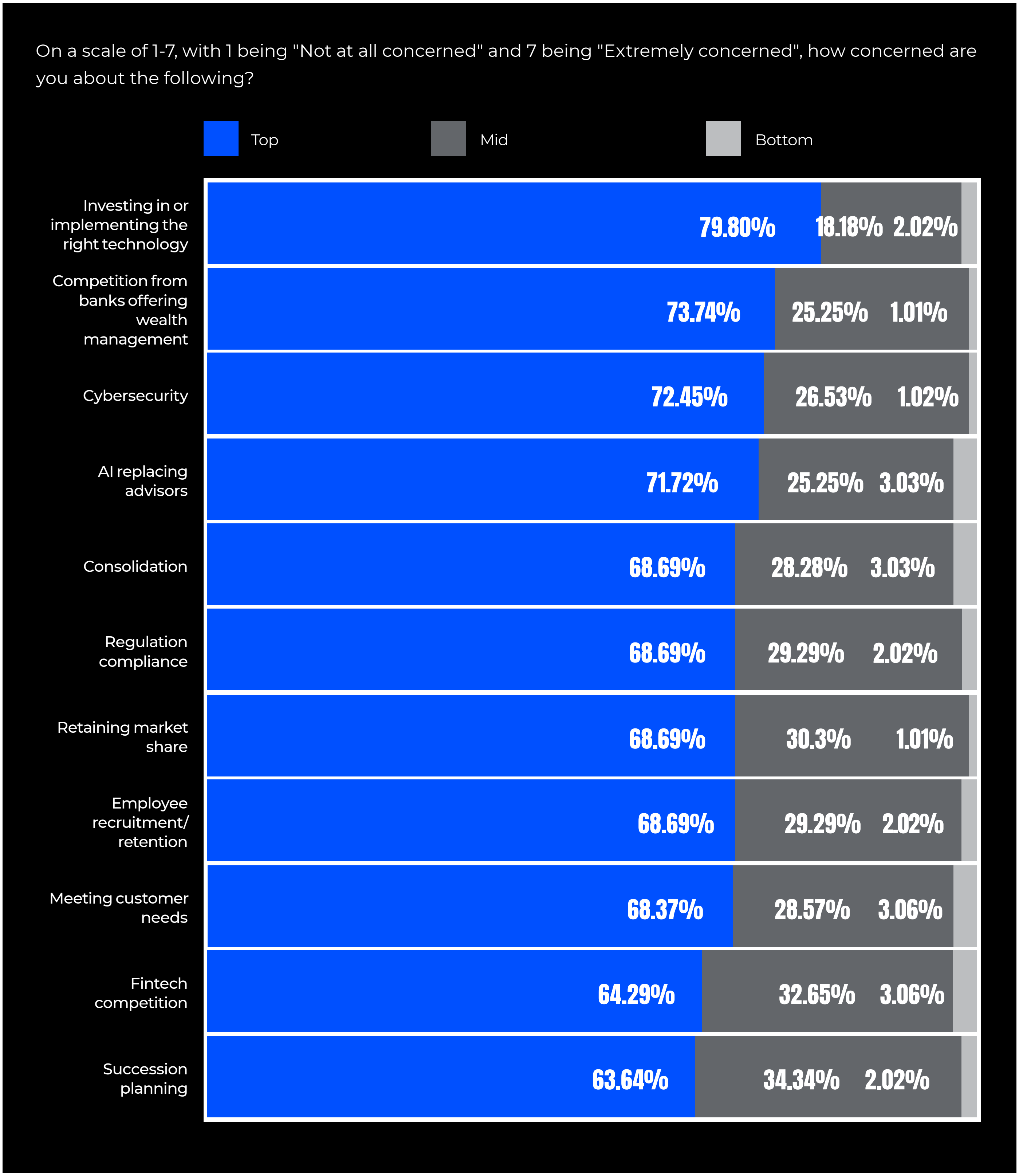
The start of 2023 has been clouded by economic uncertainty and volatile markets. How likely do you anticipate seeing the following in the next 12 months?

Please rate on a scale of 1-7 with 1 being "Not likely at all" and 7 being "Extremely likely."



Which best describes your revenue growth projection for the next 12 months?

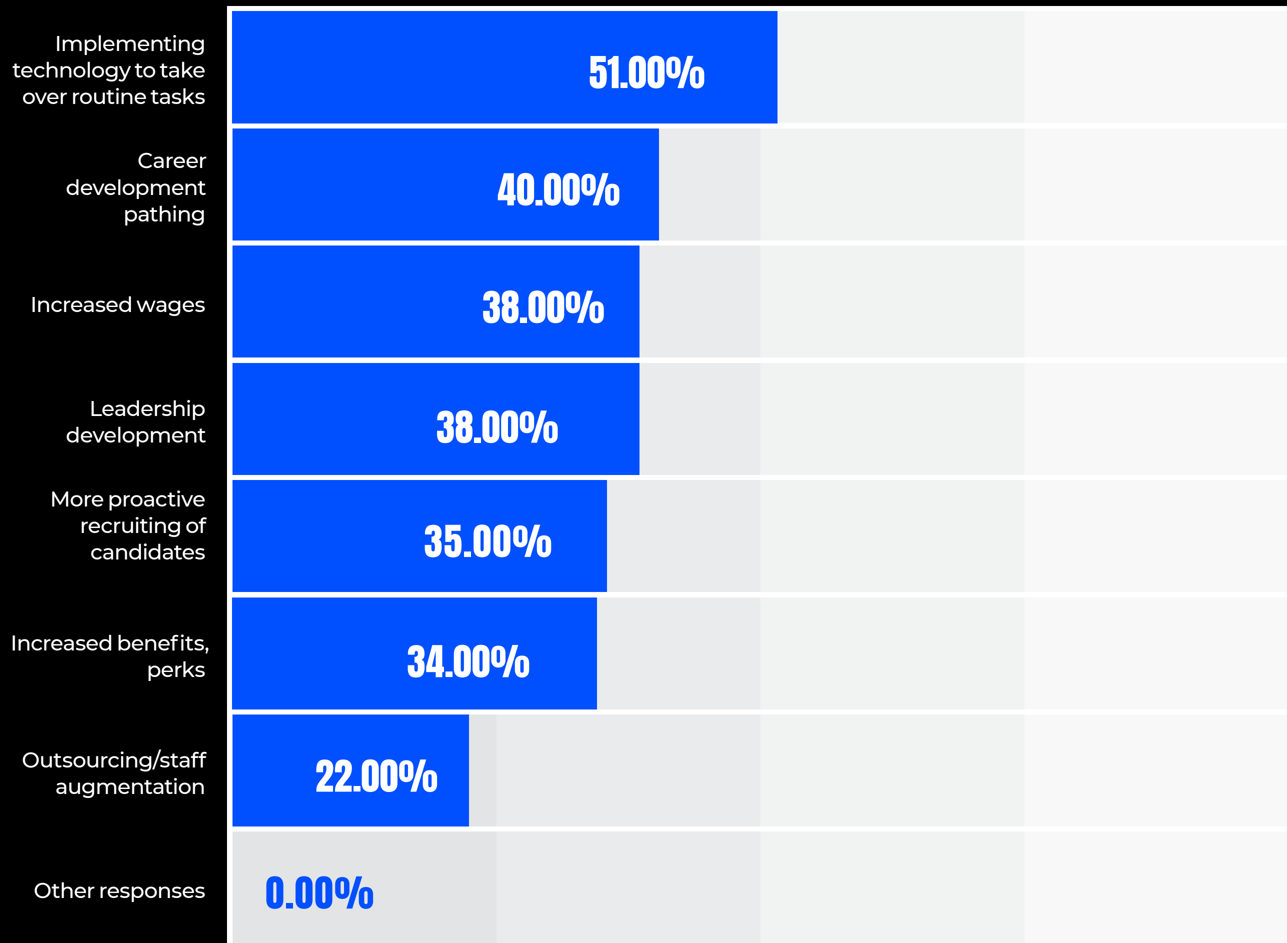


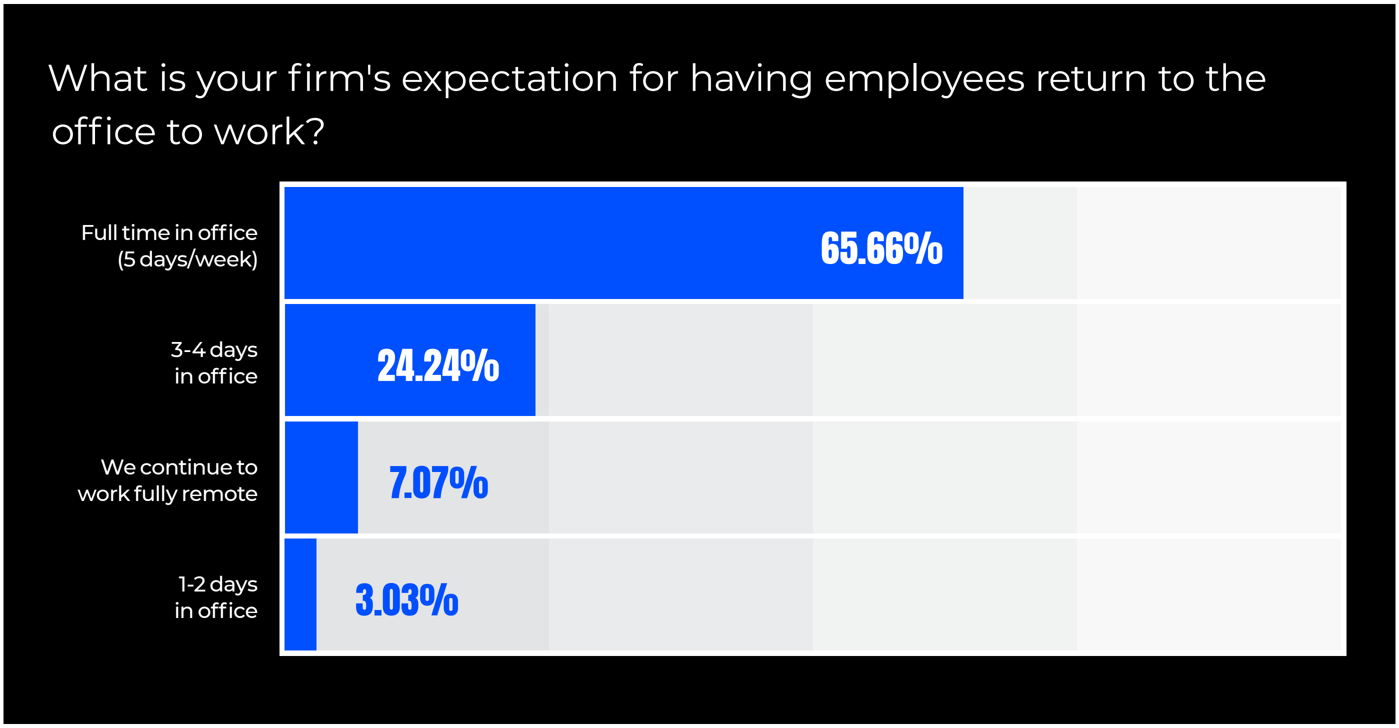


On a scale of 1-7, with 1 being "Not at all concerned" and 7 being "Extremely concerned", how concerned are you about the following?
Top
Mid
Bottom
Investing in or implementing the right technology
79.80%
18.18%
2.02%
Competition from banks offering wealth management
73.74%
25.25%
1.01%
Cybersecurity
72.45%
26.53%
1.02%
AI replacing advisors
71.72%
25.25%
3.03%
Consolidation
68.69%
28.28%
3.03%
Regulation compliance
68.69%
29.29%
2.02%
Retaining market share
68.69%
30.3%
1.01%
Employee recruitment/ retention
68.69%
29.29%
2.02%
Meeting customer needs
68.37%
28.57%
3.06%
Fintech competition
64.29%
32.65%
3.06%
Succession planning
63.64%
34.34%
2.02%

Which of the following methods are you using to address your employee recruitment/retention concerns?

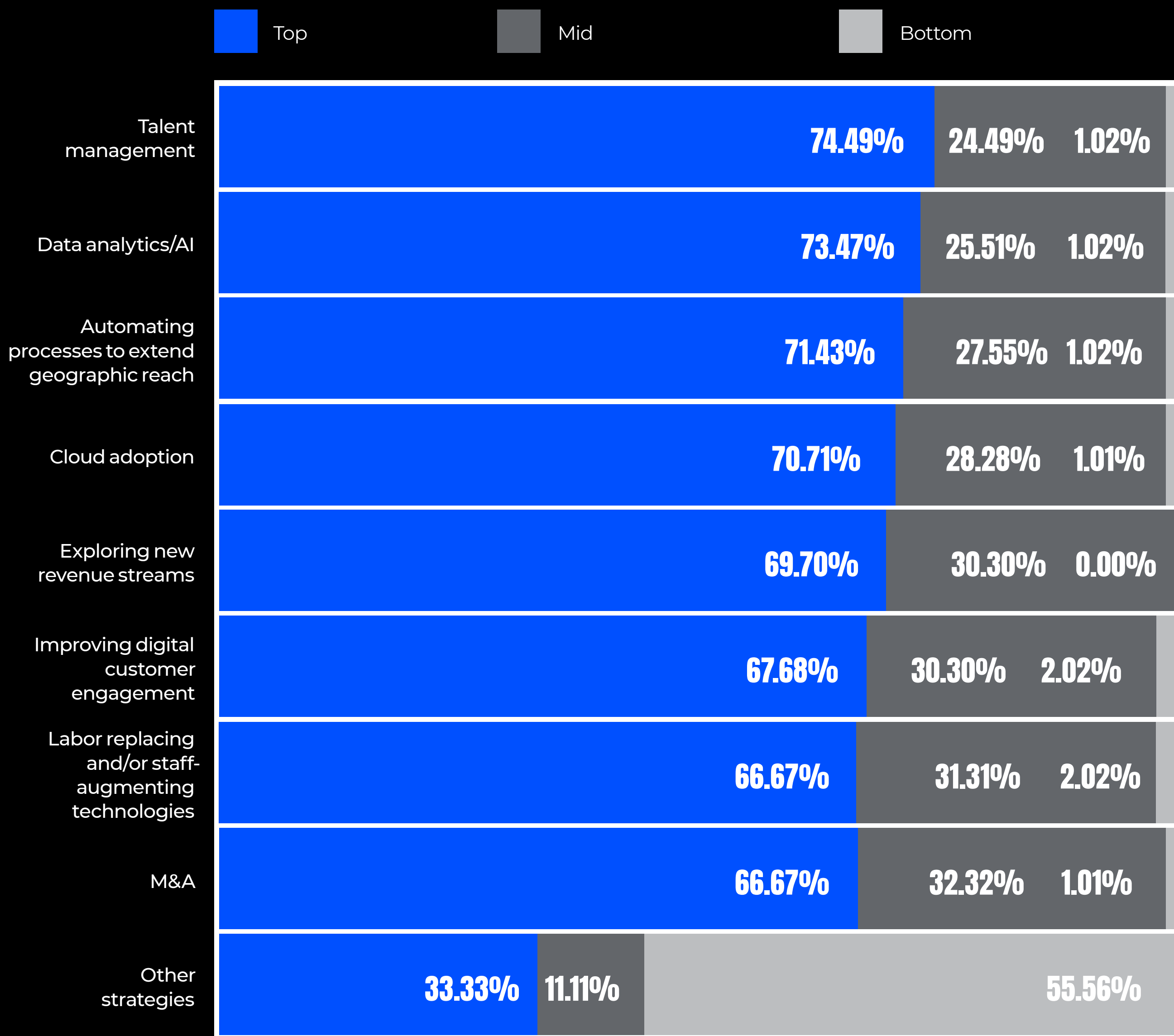
(Select all that apply.) This was only asked of those 68 respondents who rated employee recruitment/retention a 6 or 7.




What is your firm's expectation for having employees return to the office to work?
Full time in office (5 days/week)
65.66%
3-4 days in office
24.24%
We continue to work fully remote
7.07%
1-2 days in office
3.03%

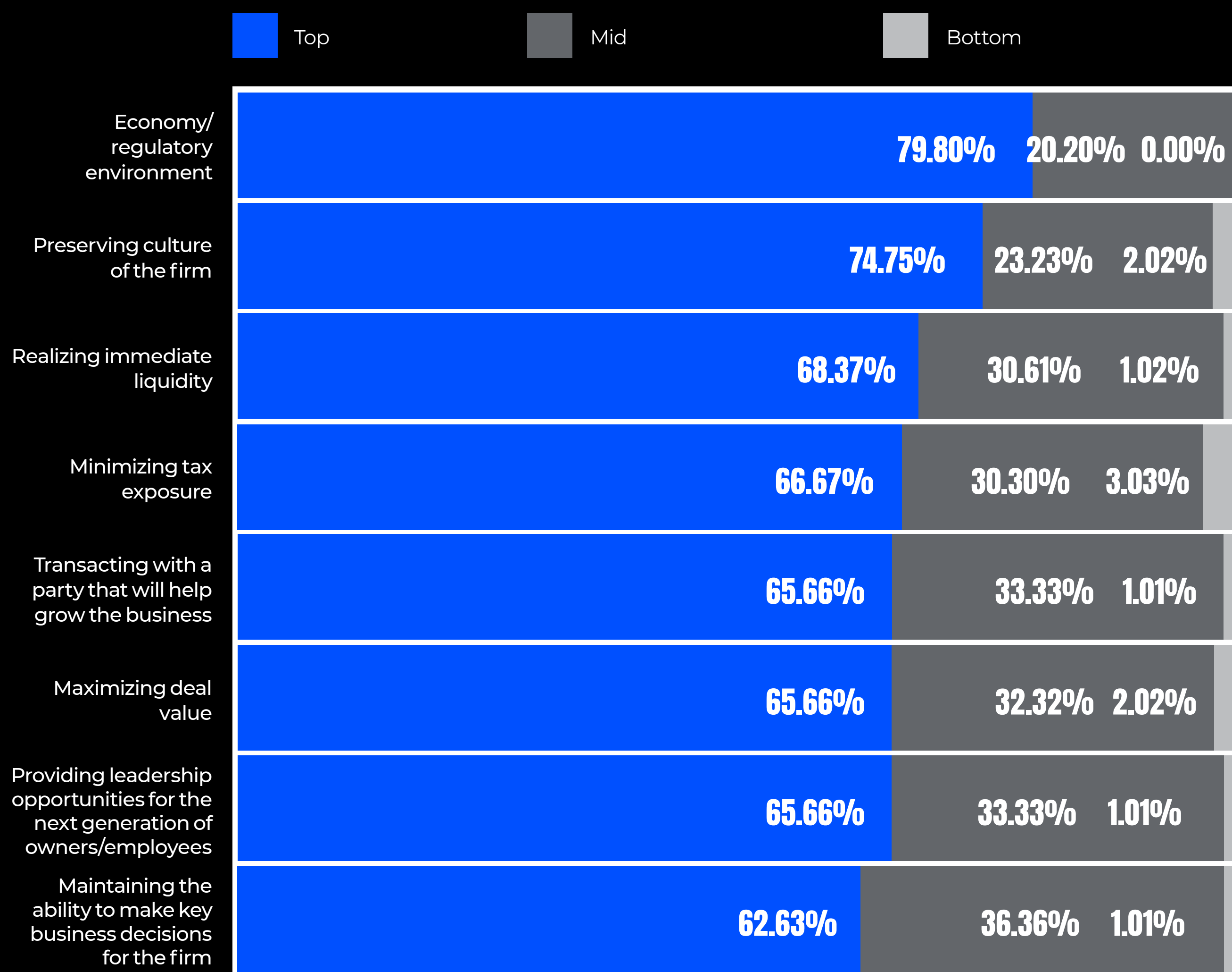
Of the following strategies, which are the most important for your firm in 2023?

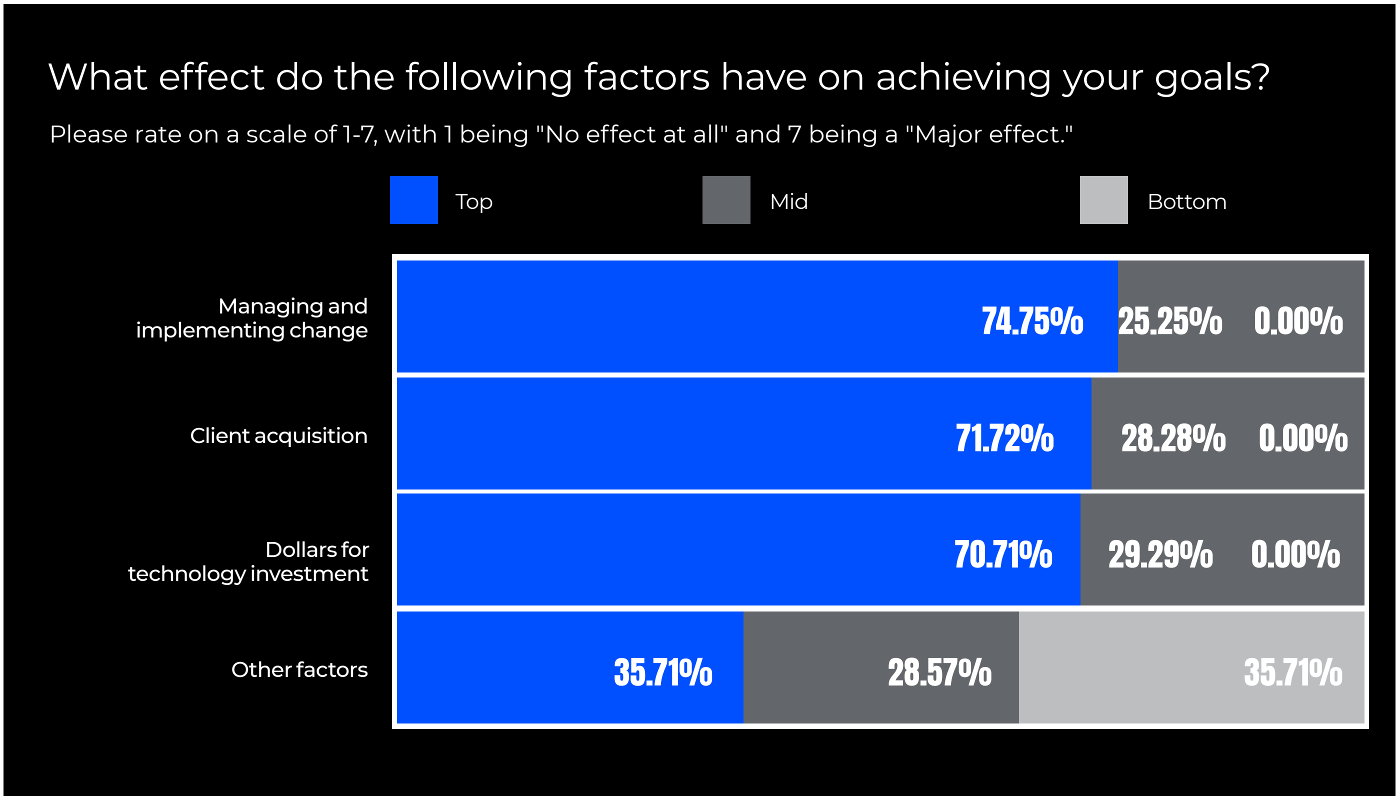
Please rate on a scale of 1-7 with 1 being "Not important at all" and 7 being "Extremely important."

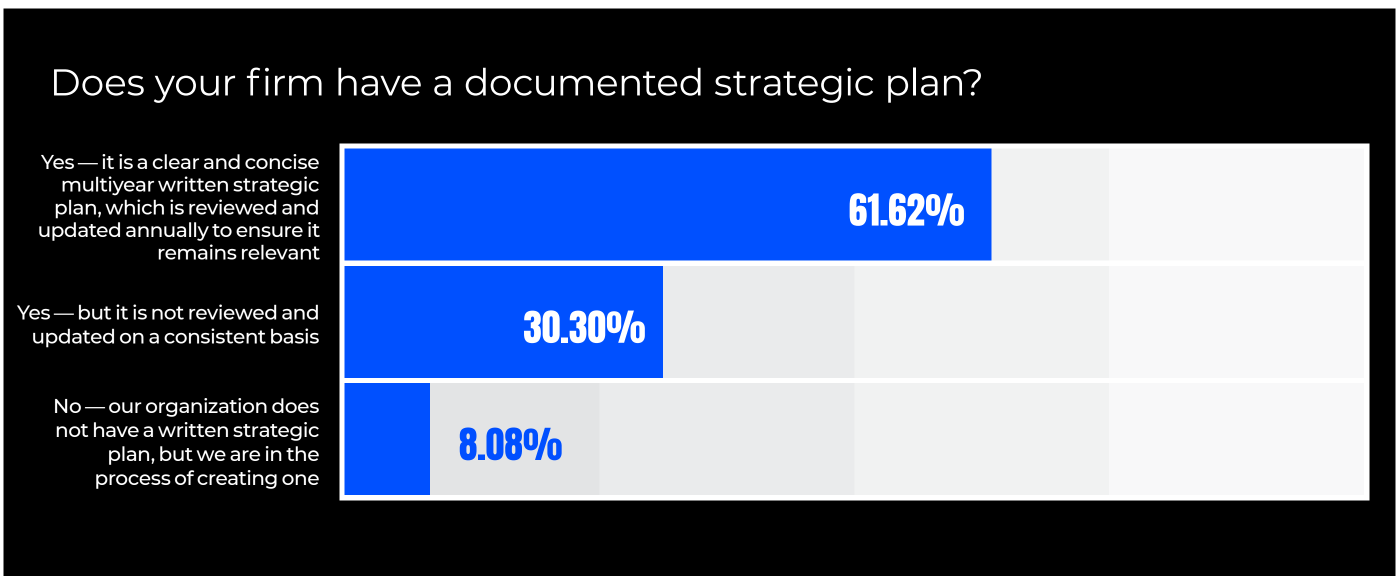


What are the most important factors when considering potential transactions for your firm?

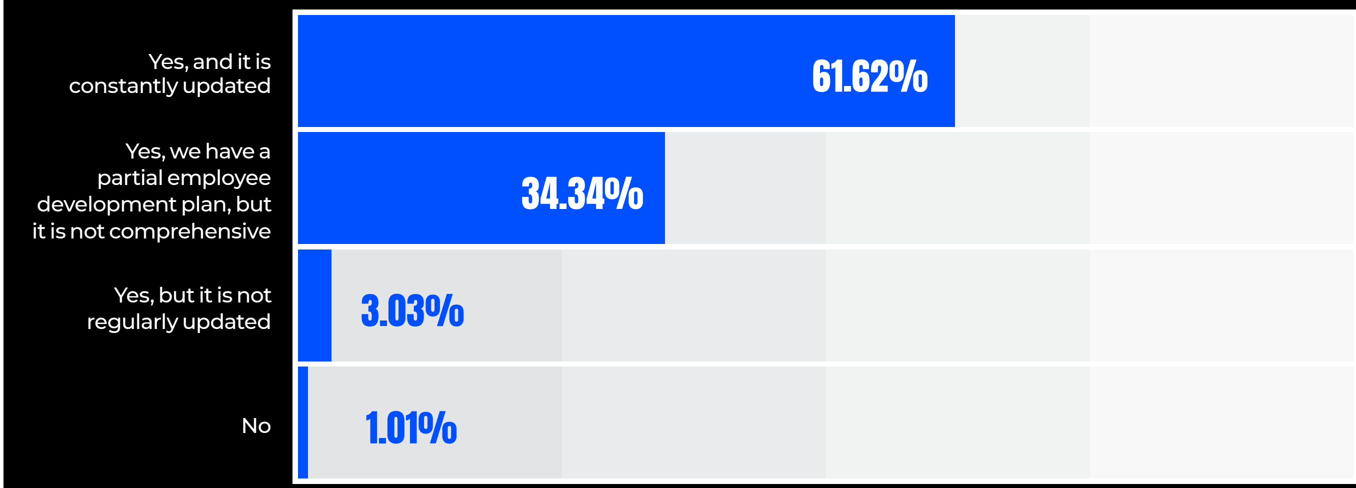
Please rate on a scale of 1-7, with 1 being "Not important at all" and 7 being "Extremely important."



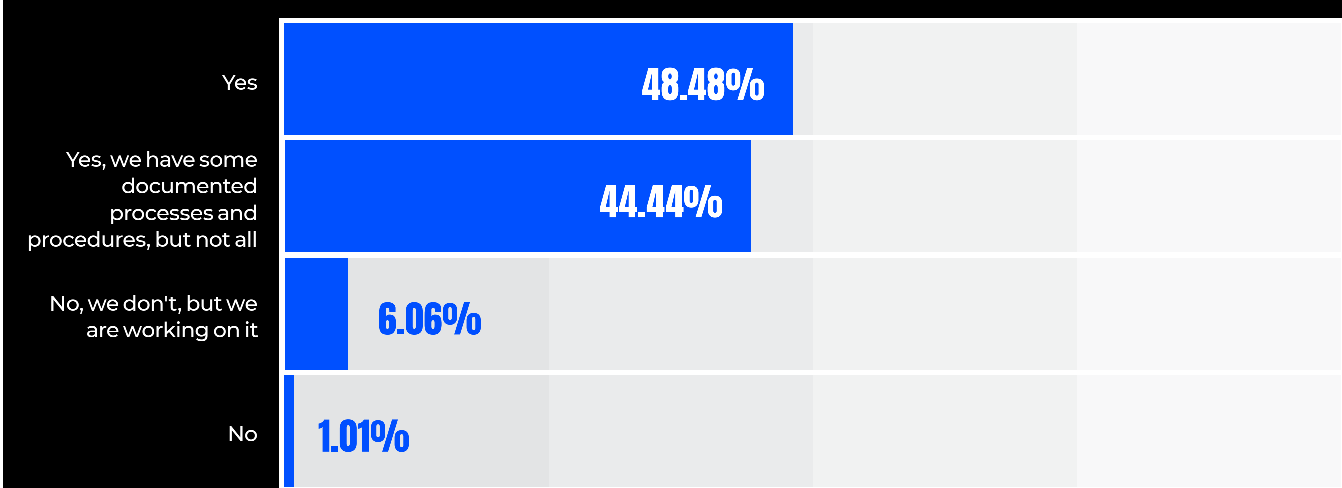

What effect do the following factors have on achieving your goals?
Please rate on a scale of 1-7, with 1 being "No effect at all" and 7 being a "Major effect."
Top
Mid
Bottom
Managing and implementing change
74.75%
25.25%
0.00%
Client acquisition
71.72%
28.28%
0.00%
Dollars for technology investment
70.71%
29.29%
0.00%
Other factors
35.71%
28.57%
35.71%


Does your firm have a documented strategic plan?
Yes — it is a clear and concise multiyear written strategic plan, which is reviewed and updated annually to ensure it remains relevant
61.62%
Yes — but it is not reviewed and updated on a consistent basis
30.30%
No — our organization does not have a written strategic plan, but we are in the process of creating one
8.08%

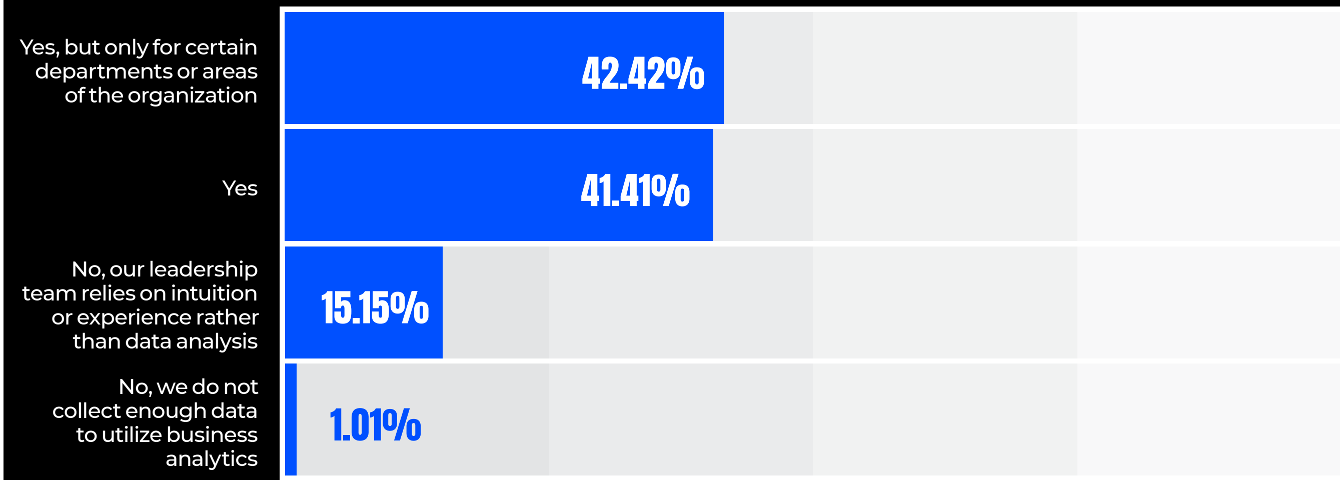
Does your firm have a documented employee development plan?



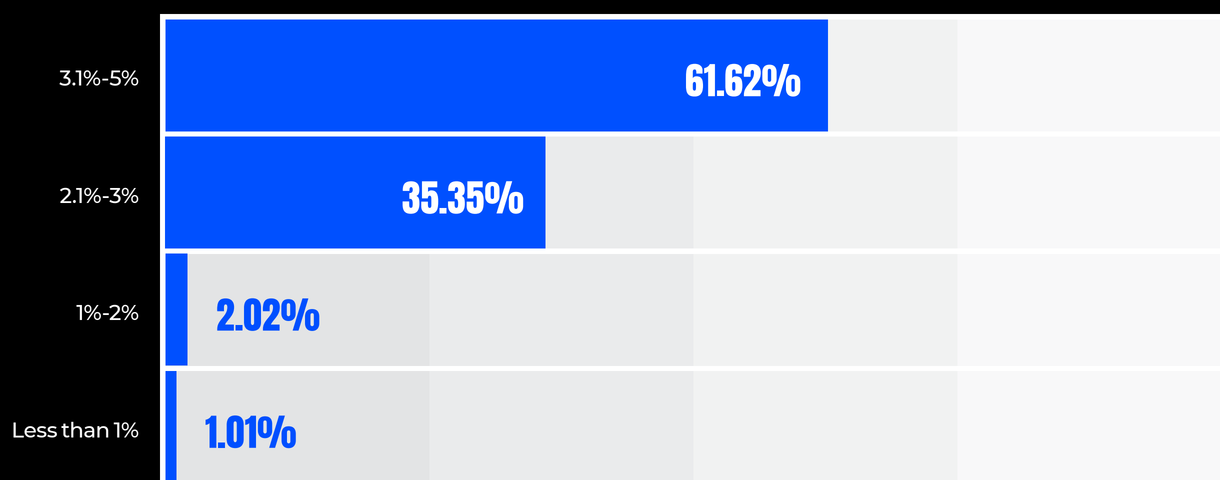
Does your firm have documented processes and procedures to provide a consistent client/customer experience?



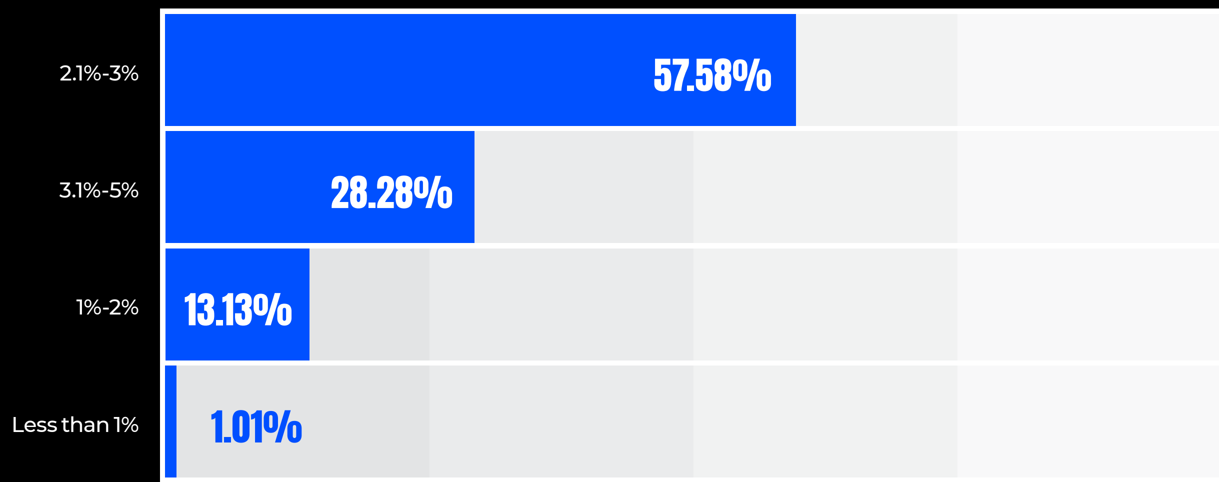
Does your leadership team utilize business analytics to make data-driven decisions?



What percentage of your annual budget do you have allocated to marketing?



What percentage of your annual budget do you have allocated to recruitment?



What percentage of your annual budget do you have allocated to technology?