IRISH 2022 OUTLOOK FOR

INVESTMENT MANAGEMENT

- A move forward -

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While I don't want to tempt fate and say that the COVID-19 pandemic is "over", it certainly seems as though we are moving to a new phase of living with the virus. However, as the Investment Management sector looks forward, the impact of the pandemic will be felt for some time, and in no area more so than talent. It is clear that meeting the talent challenge is the number one issue facing most investment management firms today. This is true both at a global level – as we know from our Global Outlook – and local – from our evaluation of the sector in Ireland. Addressing the talent question cannot be looked at in isolation as it feeds into a second key challenge; how to bring efficiencies to business operations and firms' operating models. These issues, along with additional challenges around sustainability and compliance, are set to shape the remainder of 2022.

The talent challenge

We are all familiar with the "great resignation" effect being spoken about after COVID-19. Young people in the market have a level of agency of which their predecessors could never have dreamed , with a choice of places to work. In today's competitive marketplace, finding and retaining talent is a challenge on multiple fronts. Firms need to find interesting ways to recruit staff without adversely affecting their cost base. They also need to provide opportunities that compare with the perks and salaries on offer in fast-moving sectors like technology. Promoting the industry and demonstrating its value to talent is going to be very important.

This report was drafted before the invasion of Ukraine. However, the trends outlined in the following pages still hold true. To understand the potential impact of the invasion on Financial Services specifically, please refer to the foreword at the beginning of our magazine.

Within Ireland, asset management firms aren't just clustered in Dublin. They're also established in other parts of the country such as in Cork, which can appeal to people who want to move back to where they grew up. So, one option for firms to attract new staff or keep the existing workforce is to offer either hybrid or fully remote working options. Interestingly, our Global Outlook found that almost three-quarters of respondents indicated their firm is likely to adopt either a 'majority back as soon as possible' or a 'highly flexible' strategy. Irish firms need to decide how they want their workforce to look in up to five years' time and communicate their policies when recruiting.

Another aspect of the talent challenge that firms must address is keeping asset management exciting enough that the best people want to work in it. This speaks to a firm's culture: today's workforce doesn't just want a job; they want their employer's values to align with their own. This is an excellent opportunity for asset management firms to highlight the good they do for the broader community and sell the concept of custodianship. The work of investment managers underpins people's pension savings; individuals have trusted these firms to protect, nurture and grow their clients' assets and wealth to allow them to achieve their lifestyles into their retirement years. If firms can draw a connection to the value they provide, this could be an important lever in their talent strategy. As our Global Outlook shows, however, only 62% of talent believes the workforce is aligned with the organisation's sense of purpose.

KEY TAKEAWAY

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The operational challenge

If the first challenge facing firms is talent, the follow-on is for them to operate as efficiently and cost-effectively as possible. Both challenges are directly connected, because firms need to ask what kind of experience they're delivering for their talent. This means asking fundamental questions such as: what work do we want our people to do? Is our key talent spending most of its time on interesting, value-added work? Are administrative tasks assigned to people who want to do them, or are they outsourced to third parties? If firms choose the latter option, this frees their key talent to focus on the more interesting value-added work. As our Global Outlook shows, 95% of firms are planning structural changes across their front-office, middle-office or back-office functions over the next 12-18 months. The global picture also points to transforming operations, with some firms partnering with external providers in order to advance their own digital transformation efforts.

Overall, net spending on emerging technology is expected to increase over the same period.

The four primary areas identified in our Global Outlook survey are: cloud computing and storage; cybersecurity; artificial intelligence; and robotic process automation. As the Outlook notes, cloud and security investment both address the issue of new working models such as flexible and remote working. At a global level, digital adoption is an increasingly important source of competitive advantage. Our previous research identified tangible differences between leaders on data and technology and laggards, including increased organic growth, longer client retention, and improved investment performance.

Our work in Ireland has identified that digital technology adoption serves three primary goals: enhancing the investment decision-making process, increasing operational efficiency, and improving client experience.

First, firms need to address three barriers to adoption: strategy, people, and resourcing. A lack of clarity on how digital technologies enable the business strategy as well as inconsistent execution of strategy are both creating uncertainty for digital initiatives. The second barrier, people, refers to cultural issues such as resistance to change, an underestimation of the shift in mind-set and ways of working required and skills gaps. Thirdly, resourcing is the perennial issue of finite resources for digital initiatives given competing priorities.

Yet managers have powerful tools to overcome these three barriers. For strategy, managers firstly need a clear vison, objectives, and commitment to actioning them. Secondly, they should articulate to internal audiences how digital technologies will drive competitive advantage. Thirdly, they need to empower digital leadership to drive the development and execution of business strategy.

For the people challenge, managers require a holistic approach that encompasses the human, physical, digital and organisational environments. They can do this by building an enterprise-wide culture of innovation. This hinges on reskilling, attracting new talent and optimising the talent model. To mitigate resourcing barriers, managers need a consistent approach to allocating capital between competing digital and non-digital initiatives, one which prioritises value. They should rethink prioritisation, using a starting point of a framework to allocate capital to digital and non-digital initiatives, with a focus on value as well as cost and risk.

Overall, we would advise clients to understand what they want to achieve, and not just buy the latest technology for its own sake. This should involve asking questions such as: is your technology investment aimed at driving down cost or creating a better environment for your talent? Is the goal to create richer data for your clients? Is your intention to increase returns through better decision making? Clearly, there are tangible benefits to each of these three areas, but it's essential to have an overarching strategy that takes account of the interdependencies between each one. For example, if the focus is on delivering an enhanced client experience, you will need to consider what that means for staff.

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KEY TAKEAWAY

With spending on emerging technology such as AI and Cloud expected to increase, firms should firstly consider and understand what they want to achieve with this new technology before investing in it.

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The sustainability challenge

Sustainability is now an issue that concerns us all and for many businesses, this principally involves setting goals to increase their own energy efficiency and reduce their carbon emissions. The investment management sector is quite unique in that it needs to pursue these environmental, social, and governance (ESG) goals too, but it's also incumbent on firms to invest responsibly in sustainable funds. To do this, they must give confidence to investors and regulators around their chosen ESG funds.

The SFDR (Sustainable Finance Disclosure Regulation) came into effect in March 2021, and it's intended to compel asset managers to disclose how they meet various sustainability objectives. This is designed to avoid 'greenwashing', where funds would attract investors based on sustainability claims, but without a framework for assessing how valid those claims were.

This is an important issue for asset management firms, because if they want to attract investors, particularly younger investors, they have to comply with the new taxonomy, and be transparent about their chosen funds, with regulators reviewing compliance. If a manager is found to sell a fund that claims to be green but that doesn't meet the criteria, it will face consequences. The corollary of this is that investment management firms can be ultimately advocates of change. They have a presence in boardrooms and with C-suite executives at companies and they can help to drive the sustainability agenda. This combines compliance and advocacy, because the capital they invest is a powerful factor in influencing change. Firms that take a proactive stance and invest in companies that do the right thing for the environment is a statement of values that firms can communicate to make them more attractive to clients and, as we have referred to above, to talent as well.

For firms looking to pursue an ESG strategy, we advise a four-stage process:

1 Governance

- Develop new risk structures - or build on existing ones - to equip the organisation with ESG oversight

2 Frameworks

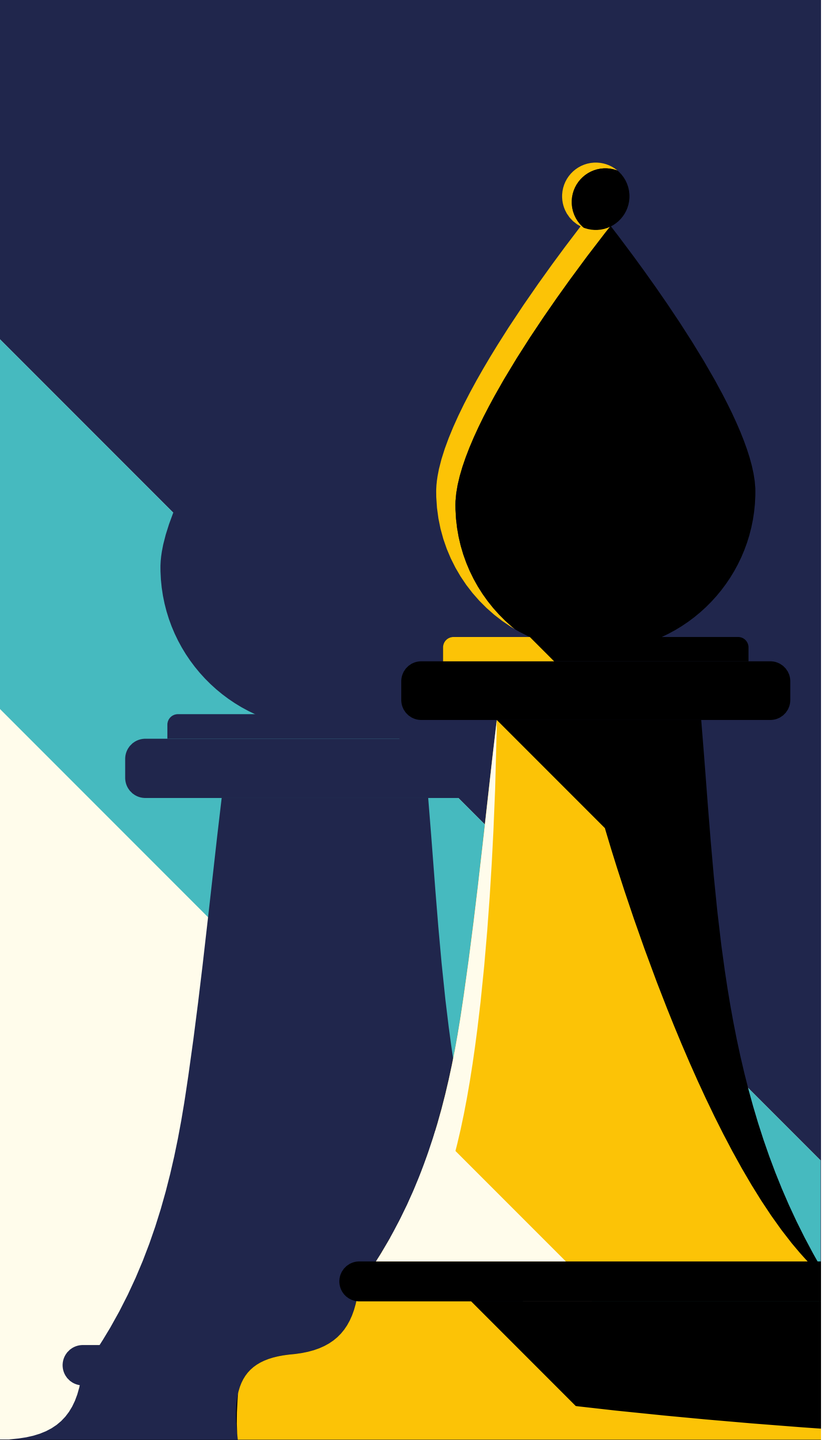
- Identify which frameworks are best suited for the business
- This can help determine KPIs, metrics and objectives

3 Strategy

- Define and bring the sustainability strategy to life
- Integrate ESG issues and consider steering portfolios
- Climate scenarios analysis can actively support risk mitigation planning

4 ESG Integration

- Innovation can be catalysed by adjusting or expanding the product offering
- Counterparty engagement can help reframe business models
- Embedding ESG into operations can enable a more resilient business
- Capital can be reallocated to drive greater impact



The regulatory challenge

In the Irish market, we expect to see more developments from CP86, the fund management effectiveness framework. One of the outcomes of Brexit has been the number of asset management firms locating in Ireland because they need to maintain a presence in the EU. The Central Bank of Ireland has looked closely at those new and existing organisations' operating frameworks and governance structures and CP86 is its tool to make sure that the substance and governance of those firms is where it should be. This links to the operational efficiency drive we covered above. We expect 2022 will be very interesting because the Central Bank will undertake a review of how local firms have implemented the regime and that is likely to drive additional change. It will be interesting to see whether firms have indeed implemented it. The Central Bank has already indicated its plans to review firms' approaches to CP86 during the year and we wait to see how they have risen to the challenge and implemented the regulation in a way that satisfies the Central Bank.

Conclusion

In closing, we see a massive opportunity for the asset management sector globally and locally. The amount of Irish assets under management is higher than it's ever been. This is an exciting, dynamic and global business, and still a young business. If the past two years were tempered with managing the effects of COVID-19 and Brexit, this year it's about coming out of that period with record assets, having dealt with the short-term challenges of running the business.

Now, firms need to clarify their messaging to staff and to the public about doing things differently, whether that is in the products they provide, how they operate, or their ESG efforts. Their strategy must set out a plan for how to help others put their capital to use and do so in a way that shows the value to staff, clients and society as a whole.

For our Global perspective, read our **2022 Global Investment Management Outlook**