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THE SKILLS & COMPETENCIES REQUIRED OF TODAY'S INVESTMENT PROFESSIONALS

CONTENTS

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PREFACE

The investment management profession is being affected by rapid technological advance, demographic change and evolving regulation. These developments set the scene for this report which explores the skills and competencies required of today's investment professionals, how these have changed, and what they will look like in the future. We obtained feedback on what firms look for in their recruits, the technical and soft skills required by today's practitioners and the competencies demonstrated by exceptional performers. We include perspectives on developing teams and successful leaders.

This research is set against an environment of significant regulatory change in training and competence. Over the summer of 2016 the FCA will consult on the implementation of the European Securities and Markets Authority (ESMA) Guidelines on training and competence into the FCA Handbook. The guidelines lay out a requirement for those 'giving information' and/or 'providing advice' to achieve an appropriate qualification and demonstrate ongoing competence. The FICC Market Standards Board is working to develop training, qualification and CPD requirements for wholesale market practitioners. Finally, the Senior Managers & Certification Regime (SMCR), expected to be introduced from 2018 for those FCA authorised firms not covered in the first wave of SMCR regulation, will require firms to demonstrate the ongoing fitness and propriety of key staff.

The research process for this report included interviews with front office investment and learning & development professionals. CFA Society of the UK (CFA UK) is grateful to all those who contributed their time, insight and suggestions to this report.

The contributing firms varied in size, client base and product offering. Some organisations have single, centralised investment decision-making process, while others function under a variety of styles and processes. Interviewees included institutional investors, private wealth managers, consultants, a training provider and L&D representatives for each organisation.

The term 'investment professional' encompasses a broad range of different job functions, for which reason the focus of the report is on 'front office' roles, namely investment analyst, portfolio manager, client-facing investment manager, product specialist and dealer.

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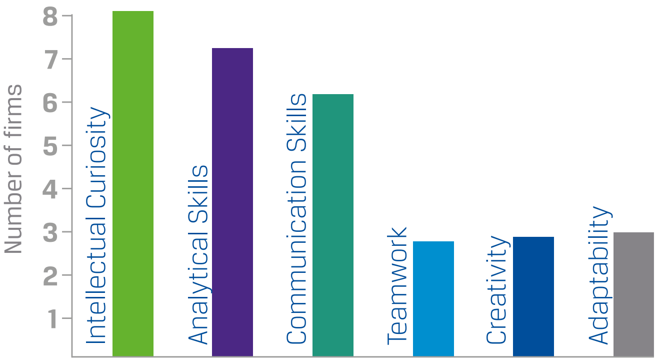
RECRUITING & DEVELOPING TRAINEES

What competencies do firms look for when recruiting trainees?



Intellectual curiosity was the most widely valued attribute by the research participants, highlighting firms' preference for individuals who think outside the box and have a natural capacity towards understanding company and market dynamics.

Recruitment teams often look for evidence of a passion for financial markets when interviewing for junior roles. Some ask for demonstrable continuing professional development at graduate level, which is also encouraged by a number of universities. Selecting graduates from a range of academic disciplines is common, although there is a bias towards finance-related, scientific and mathematical subjects. Postgraduate qualifications are increasingly the norm and talent in engineering and technology is seen to be of excellent calibre.

Standard recruitment testing typically includes assessment of skills in negotiation, teamwork and communication, along with verbal and numeracy exercises. 'Stock pitch' interviews where candidates are asked to present investment recommendations are proving increasingly popular among recruiters and most effective when candidates must justify their decision-making process to a panel of experts. Candidates are expected to provide a clear, concise recommendation on a security (not just a detailed explanation of the underlying business), understand how and why they differ from the market and answer deliberately difficult questions. While current graduates display a high degree of technical and presentation skills, they are often less adept when challenged.

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The recruitment process has changed significantly in recent years, with more employers reaching out to school leavers through internship and apprenticeship programmes, especially relevant since the introduction of the 0.5% Government Apprenticeship Levy. These are not replacing graduate programmes, but are being used to source future graduate talent at an earlier stage. This avoids having to compete with other firms for top graduates during peak programme intakes. School leavers are also becoming a popular new option for new talent due to their lesser sense of entitlement. This is sometimes seen in graduates who have an expectation of being wooed by a role that will compensate them for their increasingly expensive degrees. School leavers are seen to be more easily moulded by the firm culture and tend to have greater enthusiasm, whereas many firms struggle to get commitment from graduates who may be more focused on monetary reward than passion for the industry.

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Due to technology and social media graduates are more prepared and more experienced than in the past and able to 'play the interview game', making it harder to determine their true qualities and motivation. However, the value of graduate education and skills developed at university cannot be replaced by a school leaver, which is why many firms seek to train their school leavers up to and through their graduate schemes.

During the research a question was also raised on whether firms filter out potential candidates through overcomplicated online assessments prior to interview stage and whether these should change as a result. Due to globalisation there is a large disparity of knowledge in graduates with different styles of university education, which is seeing classroom learning be replaced by alternative forms of more tailored development. Also worth considering is the difficult concept of graduates being 'desk ready'. On average graduates are considered to become 'useful' 2-3 years after joining, during which time their assertiveness in situations where they lack knowledge must be built up through mentoring.

KEY COMPETENCIES OF INVESTMENT PROFESSIONALS

COMMUNICATION, CURIOSITY, CREATIVITY AND COLLABORATION

COMMUNICATION

Communications skills include leaders as communicators, peer-to-peer communication, sales communications to clients and among others, cross cultural communication for globally positioned companies. The five most valued communication skills highlighted were:

1 **Summarising complex issues clearly and succinctly.** From verbal communication such as an analyst conveying to a fund manager a compelling investment opportunity, to the ability to write a concise attention-grabbing email, the delivery of the message in a clear and succinct manner and identification of the appropriate delivery channel is critical. The importance of grammar is seen to be underplayed, but remains a basic requirement.

2 **Tailoring communication to the technical level of the audience.** Investment professionals communicate with a wide range of retail and institutional clients as well as IT, research teams and peers. The ability to appropriately adapt the level of communication to the audience is key.

3 **'Reading' people to empathise and establish a strong rapport.** Essential for client-facing roles and increasingly across internal networks.

4 **Resilience to sustain a logical argument under pressure.** This skill is essential when influencing an internal investment debate and when making portfolio recommendations. All analysts will experience periods in which some of their best ideas detract from fund performance. It is therefore important to listen to others and admit to mistakes.

5 **The ability to identify and ask insightful questions.** A core requirement for investment analysts seeking company insights.

Communication is seen to be a competency that can be developed in staff. Some aspects of communication such as reading body language, identifying the right communication channels and interpreting cues in conversations with clients are perceived as common sense and therefore more innate than trainable. Attitude to development varies. Experienced individuals with established client bases do not always see the need to improve. Newer entrants are generally keen to learn. Advice and training on how to improve communication skills are generally available through tailored in-house courses and third-party workshops.

The skills & competencies required of today's investment professionals

CURIOSITY & CREATIVITY – IDEA GENERATION

No active investment management firm can flourish without generating a flow of effective investment ideas. Intellectual curiosity and creativity were therefore seen as important competencies.

When recruiting trainee or junior investment professionals firms look for an interest in the wider world, inquisitiveness and 'a thirst for knowledge'. For many participants, a willingness to question consensus wisdom is also valued.

There was a widespread belief that creativity is largely innate and therefore harder to develop. However, there is a growing body of opinion amongst some academics and business writers such as Sir Ken Robinson, Mihaly Csikszentmihalyi and Ed Catmull to suggest it is possible to develop or enhance creativity.

COLLABORATION & LEADERSHIP – THE BEST PERFORMING TEAMS

Investment professionals often work in small teams and an effective team outcome requires a high degree of collaboration. The feedback we received indicated that diversity within teams improves performance. Teams with diverse opinions, differing personalities and a balance of youth and experience, are likely to produce more rigorous investment strategies and perform better. Additionally, in a world post the global financial crisis where there is less tolerance of the maverick culture, those who maintain a balanced awareness of risks and take a long-term outlook are more highly valued.

Characteristics of the best teams

Well developed process for decision making

Non-hierarchical interaction

Respectful disagreement

Learning from mistakes

Leadership

Diversity

Psychometric profiling tools such as Myers Briggs and PRISM were found to be in common use when developing teams, particularly when seeking confidence without arrogance. The tests were also considered useful in raising alarm bells of extreme personalities and ensuring strengths are balanced and enough harmony is present to achieve results. It was felt important there should be enough challenge within teams to get the right outcomes and optimise performance. Passive agreement by entirely likeminded individuals was viewed with concern. Instilling into teams a strong sense of ownership and rewarding and recognising the group rather than individual star performers was another approach to achieving collaboration.

Team diversity, especially in regards to gender, but also importantly of skills, personality and experience was seen to be a current and future challenge for investment organisations. Both the IT bubble in 2000 and the global financial crisis of 2008 are reminders that market participants can misprice securities for extended periods. More diverse teams were felt more likely to generate better investment ideas and challenge prevailing assumptions. Some of the approaches to ensuring integration and in turn collaboration include agile working, remote teamwork, open floor forums to discuss and justify investment ideas to colleagues, and the notion that one must earn respect upon joining in order to exercise the right to challenge others. Equally, humility and understanding that working with others ranks above having a single view is just as crucial.

For many participants, a willingness to question consensus wisdom is also valued

Finally, team autonomy, loyalty, a clear alignment to the team leaders' goals, avoiding team politics by not overstaffing teams and thus maximising their work output and having the right to pick up other teams' investment ideas instead of competing with them were all seen to successfully serve strategic firm goals.

These teams are typically led by individuals possessing both strong investment and leadership skills. However, a strong trend emerged confirming that individuals are not required to become managers to be the top earners in the investment industry – there is a clear delineation between people versus technical leadership. Operations staff within the industry were thought to have more management experience. However, subject matter experts were seen to be able to progress up to a point where they need to delegate their specialism in order to lead.

Leadership training tends to address the challenges posed by silo structures or change management. An effective team leader must be able to mentor and undergo emotional intelligence and diversity training if possible. Training should focus on self-awareness, not looking to fix individuals, but put them through high-quality coaching to reflect on their skills and leadership style and ensure they dedicate time to leading, from junior to senior level. Such leaders possess the capacity to take a broader view and understand other business units and their contribution, strengths and weaknesses.

TECHNICAL SKILLS

There was unanimous agreement among all firms interviewed that technical ability will continue to form the core part of every investment professional's skill set. There will be more emphasis on financial modelling and programming skills to cope with technological advances, experienced hires will need to demonstrate stronger analytical skills, and qualifications such as the IMC and CFA Program will become more of a staple as candidates continue taking these at a younger age.

Logic, investment savvy, interest in other business areas outside a single-topic specialism, ability to filter out noise from the ever growing information streams and look for meaning behind the numbers, courage to take investment risk and the ability to make conclusions, as well as analyse, are already required to meet firms' technical requirements. There is also increased focus on risk roles demonstrating analytical and mathematical skills and portfolio managers mastering quantitative analysis skills and being able to use bespoke IT systems. A good example of pushing for technical knowledge improvement is to find new ways to look behind financial statements to identify opportunities for improving client risk.

Evidence of successful technical output may include increased dialogue and idea generation between research and investment teams, teams sitting closely together to encourage information flow and trusting that once work is divided up, processes will be followed at a consistently high technical standard by all.

EXCEPTIONAL PERFORMERS

Investment professionals who are able to achieve consistently strong fund performance form part of a small minority: Morningstar award their top Overall Fund Rating to just 10% of funds in a particular sector. As competition intensifies within the investment management industry, the commercial value of exceptional performers will increase.

One of the aims of the CFA UK research project into the skills and competencies of successful investment professionals is to understand whether exceptional performers can be distinguished by particular attributes. It was mostly agreed that the top talent will have all the skills and competencies of a 'good investor', not tending to be weak in any particular area. However, they will also possess a set of additional, largely innate special qualities that will set them apart.

While 'good' is an expert or high performer in their area, 'exceptional' is a high potential individual who can adapt and move into different areas of the business. An exceptional performer will speak out and express their wants, seek to develop themselves through qualifications and other training, improve in response to direct feedback, be inspiring, market themselves internally and outside the firm and be able to recognise risk and reward intuitively without tools. More arrogant individuals will be exceptional only if they bring others with them and not consider themselves to be a cut above the rest. The difference between a good and an exceptional performer failing at a task will be how they behave when they fall and how quickly they discard the failure having learnt from it. Good looks at what they can't control, exceptional will think how to fix it.

An exceptional performer will be a team player, a good listener, have a clear sense of direction, be diligent and efficient and have the ability to translate complex notions into simple ideas. They will have a thorough understanding of the industry and competition, and adapt their investment style to the changing environment. It was noted that some exceptional performers will have weaknesses but building the right team around them to compensate for these will ensure their success.

The presence of exceptional flair will become apparent within the first five years. Allowing the individual to be mentored or work closely with successful investors during the early stages of their development can therefore be immensely beneficial to foster these exceptional qualities.

What attibutes do exceptional performers possess?

REQUIRED SKILLS PAST, PRESENT & FUTURE

Technology and regulation are seen as the biggest influences on the future development of the investment management industry. Client sophistication is on an exponential increase. Disintermediation and the emergence of robo-advisory services are illustrative of the profound impact that technology is having on the structure of the industry and 'traditional' client relationships. Clients will want to see digitalisation through portfolio apps, standardisation and increasingly regular reporting on investment results.

Most respondents are convinced that a deep understanding of clients and their needs will grow in importance as the value-added service of the investment industry. There has been a shift from short-term sales to longer-term relationship building and maintaining business on the books. This could prove difficult to achieve as alternative approaches emerge to compete with traditional advisory and fund management providers.

Research showed roles such as analyst, fund manager, trader, product specialist and sales have not fundamentally changed in the past ten to fifteen years. However, increasing regulation and ever greater competition have resulted in roles becoming more specialised, with core competencies and values becoming better defined and understood. This move towards specialisation is seen with the functional separation of order initiation from execution, and with the growth of in-house analysts within buy-side firms. The need to think holistically and in real time has grown since 2008 as investment professionals had to come up with more tailored client solutions. The need for exceptional performers is growing, with reward higher for those who succeed and lower for mediocre performance.

Career expectations of investment professionals are also seen to be shifting from monetary reward to making a difference and with the growing onset of globalisation, working remotely and having more flexibility. In return, firms should expect their employees to demonstrate greater awareness of the global context they operate in. A question arose of how firms can motivate their millennials. The respondents believed that the future demand for talent will exceed supply due to globalisation and the consequent cultural differences. The investment industry will need to better explain why it is not exclusive for a certain culture or gender.

Clients are increasingly well-informed and intolerant of mediocre or poor performance.

IT, numeracy and other technical skills are seen to be important future trends as teams may need to be scaled back further due to technological advance. The growth in front office risk management roles is also highlighted as key to ensuring that investors remain within a style or risk parameter.

A key industry-wide change in recent years has been the emergence of low-cost passive products and ETF's to rival the active manager. Clients are increasingly well-informed and intolerant of mediocre or poor performance. The need to achieve consistently good 'eye-catching' active investment performance is more important. Resilience and the ability to cope with pressure – for example during periods of poor investment performance – have therefore become key attributes.

Standards of compliance, conduct and ethics are now firmly established centre stage and are set to remain there. This has empowered challenge to non-ethical leadership. Regular centralised training, well-defined corporate values and a clear 'tone from the top' are now commonplace and lead to better quality development than training within siloed business units did in the past.

LEARNING & DEVELOPMENT TIPS FOR MANAGING CHANGE

Three strong themes emerged when interviewees were asked how best to implement Learning & Development change discussed in the report.

1. Sponsorship from senior investment leaders and a supportive 'tone from the top' are vital to success. Business sponsored initiatives see better take up than when pitched solely by Human Resources. It is important to listen to the business and work with them instead of instructing change alone.

2. Implementing change via small steps as a pilot first is far more likely to yield results: build momentum and credibility gradually whilst using examples to demonstrate the practical impact of actions taken.

3. Start early, work on the changes continuously and do not allow them to become a problem as entrenched attitudes are difficult to alter: embed the change into firm culture.

Other useful development tools include flipping the 70/20/10 model to spend 70% in the classroom and 10% on intense experience; refocusing roles to deepen expertise, for example increasing product knowledge for sales staff and strengthening client relation representatives' C-suite contacts. Also deemed useful is 'constructive paranoia' as a tool for a firm's self-assessment of its learning suite and researching what other industries are doing to improve development.

Also considered valuable is using business psychologists for career guidance, score cards against performance and organisational values, positioning learning interventions that staff can directly relate to reaching their objectives and conducting a training needs analysis by engaging with those who partake in the learning, not just management – there is a powerful connect between junior staff and reality. Focusing on developing strengths instead of trying to fix weaknesses and providing decision-making support during times of change or to aid decision-making processes are also useful.

How do firms define their culture?

FIRM

- Client first
- Integrity
- Respect
- Excellence
- Results
- Professional
- Reliable
- Consistent

STAFF

- Emotional maturity
- Collaboration and inclusion
- Learning ability
- Credibility
- Humility
- Influence
- Inquisitive
- Agile
- Experience
- Fit into process
- Accountability/ Openness
- Show conviction in role

CONCLUSION

This research paper has shown that the ways firms identify and develop skills and competencies of investment professionals is changing and this trend is set to continue. CFA UK hopes this research will assist individuals responsible for finding and developing tomorrow's investment professionals.

APPENDIX – FURTHER RESOURCES

There are a number of excellent books on the areas covered within the report. CFA Institute also has a number of resources available to all investment and Learning & Development practitioners on these areas.

These include:

COMMUNICATION

VanDeren, J. (2016). 'Listen Up: Communication Skills and Your Career'.

Available at:
https://blogs.cfainstitute.org/investor/2016/03/10/listen-up-communication-skills-and-your-career/

Valentine, J. (2011). 'Best Practices in Equity Research'. McGraw-Hill.

CREATIVITY

Catmull, E. (2014). 'CREATIVITY, INC'. Bantam Press.
McCarthy, E. (2016). 'Art Lessons'. CFA Institute Magazine, p.1-4.

Available at:
https://www.cfainstitute.org/learning/products/publications/cfm/Pages/cfm.v27.n1.13.aspx?WPID=BrowseProducts

Voss, J.A. & Ortel, W.C.G. (2015). Investment Idea Generation Guide. CFA Institute.

Available at:
https://www.cfainstitute.org/learning/products/publications/books/Pages investment_idea_generation_guide aspx?intCamp=$topic61

TEAMWORK AND COLLABORATION

Dunbar, R. (2015). 'Dunbar's Number – What it means for you… and your organisation'.

Available at:
https://learning.cfauk.org/Learning/Home/ViewElearning/a4e5f989-4647-4779-a89f-a53700c7366a
(behind CFA UK member wall)

Kelly, B. (2015). 'How to Manage Biases in the Workplace'. CFA UK Behavioural Finance Conference.

Available at:
https://learning.cfauk.org/Learning/Home/ViewElearning/fbd4eef3-dee2-4cdf-9a4e-a51500ba006b
(behind CFA UK member wall)

LEARNING & DEVELOPMENT

Fabozzi, F., Focardi, S.M. & Jonas, C. (2014). 'Investment Management: A Science to Teach or an Art to Learn?'. CFA Institute Research Foundation.

Available at:
http://www.cfapubs.org/doi/pdf/10.2470/rf.v2014.n3.1

If you would like to discuss your qualification or CPD requirements, have an interest in developing apprenticeships within your firm, or have questions relating to this report, please contact Viktoria Girdenyte at CFA UK : vgirdenyte@cfauk.org.

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