



The Changing Role of the Chief Investment Officer in Asia Pacific

The transformation of capital markets in the Asia Pacific region has had a notable impact on the role of the modern day chief investment officer (CIO). With increased transparency of information and a proliferation of different investment products in the past few years, the role of the CIO in Asia has changed not only in scale but also in scope. Today's CIO must be part philosopher, part mathematician and part historian. CIOs must also be excellent leaders.

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As market participants, intermediaries and beneficiaries have become more sophisticated across the region, the performance expectations for CIOs have intensified. A protracted low-yield environment coupled with cycles of correlation across asset classes has increased the challenge. Adding to the headwinds is the steady rise of increasingly complex regulations and the escalating pressure on fee income. Deeper and more liquid markets, together with cheaper computing power have dramatically improved the decision-making abilities of all participants.

As these forces increase the complexity and breadth of the CIO role, there has also been a notable shift toward specialization. The CIO for an asset owner now has less in common with one at a private bank, an insurer, a retail or institutional team. Adding to the contrast are geography-specific factors that differentiate the role of the CIO in Mumbai from the one in Melbourne.

Notwithstanding these differences, given the critical and value-creating nature of the CIO role to a variety of organizations, we are advising our clients that the following are the essential capabilities and leadership skills that the modern CIO in Asia must possess:

Strategic thinking and solutions orientation

Beyond the day-to-day running of a successful investment function, CIOs are now expected to play a key role in shaping the broader business strategy. Investment-related decisions remain of utmost importance, but CIOs across the region are also expected to think for the long term, equip the business to adapt to unforeseen challenges and adequately respond to emerging industry trends.

It is no longer enough to be a star portfolio manager. Successful CIOs must contend with a wider array of products and strategies, a multitude of providers and an imperative to generate returns on capital. This requires a profound understanding of a broad range of investment strategies and their strengths and weaknesses across a large number of asset classes.

The ability to develop new capabilities, and respond to changing leadership demands and evolving business conditions and priorities are other must-have strategic attributes for successful CIOs.

Managing change and disruption

The high degree of volatility in the investment industry, the disruption of both front- and back-office structures and questions about the longevity of traditional business models of investment management oblige CIOs to embrace change and act as change leaders for their functions. Given the many forces shaping the investment industry, CIOs must be able to guide their teams through a period of significant and unsettling change.

The robust M&A environment has placed an additional demand on CIOs. In merger situations, CIOs must find effective ways to intersperse colleagues from diverse operating cultures, identify potential cultural barriers and begin to build bridges between disparate teams. With a growing appreciation of the importance of organizational culture, CIOs are expected to lead by example and act as an influencer. Managing colleagues through takeovers or mergers may be a new challenge for many CIOs as a majority of investment teams in the region have hitherto enjoyed steady, organic growth and stability.

Apart from integrating new staff whose skills and investment approach may differ from their experience, CIOs will also have to integrate different operating systems and processes — all with the right attitude towards change.

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External profile

CIOs need to be able to manage their external profile with a variety of stakeholders, including investors and potential

candidates. CIOs are increasingly called on to engage with a diverse audience ranging from sophisticated institutions to retail investors. Winning and maintaining the confidence of different types of investors necessitates strong communication skills.

CIOs managing large teams of investors need to have credibility and visibility with potential investment talent. Their reputation and team-building skills are nearly as important as the returns they generate. CIOs need to be able to compete in attracting and retaining top-class investment personnel.

The prominence of social media and wide availability of industry news sources have made the CIO profile more public. While social media has assisted employers in identifying and vetting of prospective employees, so too is it easy for potential candidates to vet their prospective leaders.

Originality and insight

As generating returns from traditional asset classes remains a challenge, CIOs are expected to have a profound understanding of alternative asset classes such as private equity, real estate and infrastructure. In the past, a passing familiarity with these would be the acceptable norm.

Given the low-yield environment and the difficulty in generating target returns, investors have been increasing their allocations to alternatives. This has forced several asset managers on the acquisition trail to be able to offer a wider range of investment choices to their existing clients.

There has been a rising level of professionalization of asset allocation. Given the rapidly increasing range of additional responsibilities of CIOs, their time to focus on investment decision-making has reduced. Increasingly, CIOs are relying on more sophisticated internal and external economists and strategists to guide their asset allocation decisions.

Regulatory savvy

In a dynamic regulatory landscape across Asia, CIOs are expected to keep a finger on the pulse of existing and emerging policy shifts. The best CIOs position their business in a manner that allows maximum flexibility to capitalize on opportunities arising from modifications in rules and regulations.

CIOs need to be capable of engaging with local regulators on issues relevant to their businesses and industry. Their ability to engage in constructive dialogue with regulators has become a more prominent part of their day-to-day responsibilities.

Varied career experience

Given the added importance of general management skills and broader leadership capabilities, the career path of the modern day chief investment officer is becoming less orthodox. Several recently appointed CIOs have entered the role through the “company management” path in contrast to the more traditional progression through the investment management hierarchy. For example, we have seen CIOs coming through the finance and strategy functions of asset managers and insurers. Some asset management firms and insurers have been prepared to overlook a significant track record in investing if their CIO appointee brings familiarity rather than deep investment expertise across asset classes.

A growing number of Asia-based CIOs have sell-side backgrounds. Such CIOs bring a strong appreciation of how to exploit tactical opportunities more quickly than some of their less market-savvy peers. The critical differentiator for CIOs with a background in financial markets, is their ability to learn and acknowledge that they have much to learn in regards to liability management.

IN CONCLUSION

Despite the changes that the role of the CIO is undergoing in Asia, robust investment performance remains the litmus test for CIOs. However, today’s environment presents a new opportunity for the CIOs to make a broader game-changing contribution to the fortunes of their firm.

Ultimately, the CIO of tomorrow has the same mandate as that of the past: to safeguard and sufficiently grow the assets under their remit in order to meet obligations to their stakeholders. What is changing is the complexity of the environment in which they function. Strategic thought and original insight are becoming prerequisites for success, as is the ability to challenge assumptions and adapt to an evolving landscape.

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