

# Embracing Innovation in Investment Management: Breaking Traditions & Driving Change

By Andrew Blane,  
Mark Esposito, Paige C. Scott

The investment management industry has long operated within the confines of tradition and conservatism. However, in today's rapidly evolving markets, significant rewards await players who can successfully deliver innovation. Faced with shifting investor demands and dynamic regulatory landscapes, firms must now reassess their approaches, with some starting to embrace change in order to remain competitive.

## The Investment Management Industry Landscape Today

The investment management industry is shaped by decades of risk-aversion when it comes to entering new markets and innovating new areas of growth. This reality has often bred a cautious approach to decision making, often reinforced by the intricate regulatory, legal, and compliance landscape in which investment management firms operate.

Additionally, the industry's high barriers to entry and ownership structures have historically favored established players vs. new entrants or start-ups, making it challenging for newcomers to gain a foothold. These factors collectively contribute to a landscape characterized by stability and predictability, but one that also presents opportunity for existing players who are willing to innovate and adapt:

👉 **Everybody wants to be leading edge, but nobody wants to be bleeding edge... the firms that are willing to be bleeding edge are firms with significant resources, seed capital, and the ability to experiment.** 👉

*Paige C. Scott*  
Senior Partner

## Leadership and Culture within Investment Management Firms

Leadership dynamics play a pivotal role in shaping the culture and direction of investment management firms, with an historic reactive approach to decision making being a common trend driving product innovation or lack thereof:

**“ Business outlooks appear amazing when allocator investment flows are strong... but panic ensues when an organization suddenly finds themselves lacking a product capability possessed by their competitors or when style or performance headwinds challenge long-standing revenue streams... Strategic product innovation to develop new skill sets to match allocator appetite is the most challenging long-term business-building aspect of successful investment management teams. ”**

*Andrew Blane*  
Senior Partner

With the last decade's trend of fee compression and increasingly slim operating margins, the need for investment management firms to innovate and grow for survival has never been more apparent. Traditional models of simply providing a similar suite of investment products to the market are no longer a recipe for success. As the team at Kingsley Gate know from first-hand involvement, a minority of players are starting to change that. The management teams driving for novel approaches to serve investors not just this year but five, ten, fifteen years from now are the ones that will continue to build profitable, sustainable operations.

## Specific Case Examples of Innovation within Investment Management

Technology is a major factor reshaping investment management businesses, revolutionizing everything from portfolio management to client engagement. Innovative solutions that pair frontier technology solutions with traditional investment management know-how are already proving themselves valuable to the firms investing in and embracing them. From automated trading algorithms and robo-advisors to utilizing AI technologies to predict client behavior and demand, technology is driving efficiency, reducing costs, and enabling firms to differentiate themselves in a crowded market.

By embracing technology-driven innovation, investment management firms can stay ahead of the curve and meet the evolving needs of clients in an increasingly digital world. Examples include:

### The Emergence of Direct Indexing

Direct indexing represents a significant development within the investment management industry, offering investors greater customization and control over their portfolios. This approach allows investors to directly own the underlying securities of an index, providing benefits such as tax efficiency and the ability to incorporate ESG considerations into investment decisions.

**“ The whole direct indexing space is gaining more and more momentum and traction... it’s essentially a way of hyper customization of indexing strategies for Ultra High net worth clients with a tax sensitive advantage... which, up till now, ETF products haven't been able to provide and so it's especially interesting: ETFs have been around since the 1970s but the difference is the technology overlay which provides the tax optimization and the hyper customization. ”**

*Paige C. Scott*  
Senior Partner

The growth of direct indexing is driven by factors such as advancements in technology and increasing investor demand for bespoke investment solutions. However, players dipping their feet into this rapidly growing area will need to navigate challenges such as technology investments, and vehicle structures that impact ROI, scalability, and operational effectiveness to achieve full impact.

## **Customization at Scale**

One traditional asset management organization recently launched a technology platform to provide customized portfolios to small financial advisory firms (RIAs). The intersection of technology and investment management has, naturally, required talent with experience in both areas - but with Kingsley Gate helping to source individuals with competencies in derivatives trading, technology innovation, and business operations, this platform has been successful.

**“ They've recently launched a technology that enables FA's (Financial Advisors) at RIAs who, for the most part, don't have access to technologies that allow them to successfully scale and manage their own businesses at a reasonable cost. It allows them to create customized portfolios around portfolio management and asset allocation in a way that is very bespoke and turnkey and cost effective. They launched this business two years ago and already have \$2B AUM with expectations to double by the end of year two. ”**

*Paige C. Scott*  
Senior Partner



When asked who their competitors are, the firm responsible for this tech platform replied, “Excel spreadsheets” illustrating the extent to which they are offering new-to-world solutions that would require an extremely onerous Excel-based workaround to replicate.

## Alternative Data Sources and Quantitative Investment Strategies

The availability of alternative data sources, such as satellite imagery, social media sentiment, and web scraping data, presents opportunities for firms to develop innovative quantitative investment strategies—and/or provide unique insight to investment professionals. By incorporating non-traditional datasets into their analysis, firms can gain unique insights into market trends, consumer behavior, and company performance. Quantitative investment strategies powered by alternative data sources can provide a competitive advantage in identifying alpha-generating opportunities and managing risk.

## Environmental, Social, and Governance (ESG) Integration

The growing emphasis on environmental, social, and governance (ESG) factors presents opportunities for firms to integrate sustainability considerations into their investment strategies. By incorporating ESG criteria into their analysis, firms can identify sustainable investment opportunities, mitigate risks, and align investment decisions with client values. ESG integration not only supports responsible investing practices but also enhances long-term financial performance and resilience.

Interestingly senior leaders' titles in these spaces - and where in the hierarchy they sit is a subject of near-constant debate, change, and speculation:

**“ A recent mandate titled Head of Corporate Social Responsibility has the ESG Officer as a direct report, aligning the role appropriately across the entire organization. ”**

*Mark Esposito*  
Senior Partner

## Data Analytics and Artificial Intelligence

The proliferation of data in today's digital age presents opportunities for investment management firms to leverage advanced analytics and artificial intelligence (AI) algorithms. Data-driven insights can inform investment decisions, identify market trends, and optimize portfolio performance. AI-powered tools can automate repetitive tasks, enhance risk management processes, and improve investment outcomes through predictive analytics.

“ AI-driven, long-only and long/short small cap equity strategies are coming into the mix due the ability to extract fundamental research data from large data sets. ”

*Mark Esposito*  
Senior Partner

## Automation and Robotic Process Automation (RPA)

Automation technologies, including robotic process automation (RPA), have the potential to streamline operational processes and reduce manual intervention in investment management workflows. By automating routine tasks such as data entry, reconciliation, and reporting, firms can improve efficiency, reduce errors, and free up resources for more strategic initiatives. RPA can also enhance compliance efforts by ensuring consistency and accuracy in regulatory reporting and documentation.

## Digital Asset Management and Cryptocurrencies

The rise of digital assets and cryptocurrencies has opened up new avenues for investment management firms to diversify their portfolios and access emerging asset classes. Digital asset management platforms offer investors the ability to trade, take custody of, and manage a wide range of digital assets, including cryptocurrencies, tokenized securities, and non-fungible tokens (NFTs). While regulatory considerations and market volatility present challenges, innovative firms are exploring ways to incorporate digital assets into traditional investment strategies and meet the evolving needs of clients.

## Where does Kingsley Gate fit in? The Importance of Talent Acquisition for Innovation

Identifying and hiring the right executive leaders is mission critical when innovation is the goal. And the rubric goes well beyond technical proficiency, especially when the solution or business model that's being contemplated has never been launched by anyone in the past. Successful talent acquisition emphasizes alignment with the organization's culture, values, and approach or approaches to decision making.

Additionally, which sets of technical proficiency are most helpful might not be immediately clear, which is where external advisors such as an Executive Search firm can be extremely helpful. For example, when looking at the emerging area of direct indexing, an Executive Search firm may look for experience in domains such as traditional indexing, quantitative investing and/or derivatives trading, where the fundamentals are common enough to allow for transferable knowledge and skills. Or, it may make sense to look at talent who have depth in systems architecture and other technology capabilities prior to, embedded in, or in separate from their experience in investment management.

Many organizations want to hire Executive Search firms with a track record, but just as the executives themselves will not have implemented the exact solutions in question anywhere else before (otherwise it wouldn't be "innovation"), the Executive Search firms that organizations look to for help also won't have placed leadership with such a history.

Perhaps a more relevant question is: how has the Executive Search firm in question helped support or drive innovation in the investment management industry? Kingsley Gate has been at the forefront of many business models and solution reinventions within the industry, driving transformative change by placing leaders who pioneer new approaches and strategies. From facilitating the appointment of corporate social responsibility officers, identifying investment and distribution leaders with unique business/product building experience, to aiding firms in launching new technology platforms, Kingsley Gate has been instrumental in reshaping the landscape of investment management.

## Start Embracing Innovation as an Investment Management Firm

Check out Kingsley Gate's [Financial Services Practice](#) and [request to speak to an expert](#) to learn more about what we do and how we help Investment Management players deliver successful, breakthrough innovation at scale.

